

105
**REVIEW OF THE GENERAL OUTLOOK FOR FARM
ECONOMY AND COMMODITY PROGRAMS**

4. AG 8/1: 103-84

view of the General Outlook for F...

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JUNE 29, 1994 AND JULY 14, 1994

Serial No. 103-84



Printed for the use of the Committee on Agriculture

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REVIEW OF GENERAL OUTLOOK FOR FARM ECONOMY AND COMMODITY PROGRAMS

WEDNESDAY, JUNE 29, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 1:35 p.m., in room 1302, Longworth House Office Building, Hon. Bill Sarpalius (chairman of the subcommittee) presiding.

Present: Representatives Glickman, Peterson, Long, Dooley, Pomeroy, Stenholm, Barlow, Doolittle, and Smith of Michigan.

Staff present: Jan Rovecamp, clerk; Caroline Anderson, James A. Davis, and Neil P. Moseman.

OPENING STATEMENT OF HON. BILL SARPALIUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SARPALIUS. The Subcommittee on General Farm Commodities will come to order.

I want to begin by welcoming all of you to this subcommittee hearing. This will be my first committee to chair as chairman of this subcommittee. And as the United States heads into the 21st century, agriculture must continue to move forward in regards to the rest of the world.

The agricultural sector is constantly changing, as shown in the decreasing number of family operated farms. Specifically 311,000 fewer farms in 1993 as compared to 1983, while increasing productivity by 2.6 percent annually. The economy is becoming more globally driven in regards to the U.S. trade agreements such as NAFTA and the pending GATT agreement.

With both of these agreements, comes the opportunity to further expand our agricultural sector into world markets.

Also, budget constraints are weighing heavily on every taxpayer's mind with a \$4 trillion national debt. In 1992, our deficit was \$290.2 billion and agricultural programs were a major target for massive reductions.

This Congress has made some bold changes through major cuts, and agricultural programs have not been an exception. In 1995, the deficit is projected to be at \$171 billion, which is a 40 percent reduction from what it was projected to be, before the enactment of the deficit reduction bill last August.

Reducing the deficit will eliminate the necessity to make further cuts to farm programs in the future. The House recently voted in

favor of reducing agricultural appropriations by 10 percent, or \$3 billion in real money for fiscal year 1995.

This reduction is \$600 million less than what the administration requested. There is no question that the 1995 farm bill will be budget driven.

We must keep in mind that the 1995 farm bill will move the agricultural sector into the 21st century. Many issues are facing both legislators and farmers today, much of which this subcommittee has jurisdiction over, revolves around how the Government should respond to the economic needs of farmers, and particularly cotton, rice, wheat, oilseeds, and feed grain producers.

It is my wish to conduct an informative hearing this morning, so that my colleagues and I will be able to more fully understand the economic problems currently facing farmers, and to find a way to work together to find solutions to these problems.

We will continue this same topic following the 4th of July recess in additional hearings. Again, I want to thank all of you for being here today.

I would like to call on my colleagues if they want to make any opening remarks.

OPENING STATEMENT OF HON. CALVIN M. DOOLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. DOOLEY. Thank you, Mr. Chairman. I think it is time for the subcommittee to look ahead to the 1995 farm bill, and also time for the various commodity groups to take to heart one of the comments that you made, that the future farm bill is in fact going to be budget driven in large part, and that we have to understand that with the political and fiscal realities that the farm programs are going to be faced with, we have to be looking toward the future. How can we respond in a manner that ensures we are developing farm programs that are market driven, that take full awareness of the fact that our market opportunities are going to be primarily international, our expanded market opportunities are going to be international in nature, and how do we devise farm programs that facilitate farmers having greater access to these new and emerging markets?

I hope that we focus on that. I have some strong feelings on this, and any appreciative of the Department coming up and giving some comments and insights on these issues.

Mr. SARPALIUS. Thank you. Also, any prepared statements received from the members will be placed at this point in the record.

[The prepared statement of Mr. Emerson follows:]

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STATEMENT OF CONGRESSMAN BILL EMERSON
BEFORE THE GENERAL FARM COMMODITIES SUBCOMMITTEE
REVIEW OF THE GENERAL ECONOMY AND FARM COMMODITY OUTLOOK
JUNE 29, 1994

Mr. Chairman, I wish to thank you for holding this important forum on a matter crucial to our farming and ranching communities. Today, we have the opportunity to take a first look at our agricultural economy in order to reinforce the critical nature of our federal farm programs. Current federal farm programs play a significant role in sustaining economic enterprise among various agri-businesses and related Main Street commerce.

As we shall hear today, the make-up of any federal farm program encompasses a broad range of issues. With the increasing complexity of domestic and international consumer and producer issues, balancing these interests poses a significant challenge to the future of federal farm programs. Likewise, I hope we can today begin the process of molding and shaping the direction of American agricultural policy while laying the ground work for future rural generations.

Unfortunately, this Administration has been impeding production agriculture efforts through the continued erosion of the farm budget. The Agriculture Appropriations bill recently approved by the full House is a prime example of the President and this Congress

slashing into the agriculture budget in order to fulfill the administration's social agenda. Clearly, this is a path that the interests of production agriculture and the small communities that depend on our farming and ranching efforts can ill afford.

Indeed, the EPA's Clean Water Act reauthorization plan could easily make the existence of farm programs a mute point as this plan would effectively drive small to mid-size family farm operations out of agricultural production. In a business such as agriculture where profit margins are vulnerable to weather and marketing conditions beyond the control of the local producer, the imposition of more redtape, more federally approved land-use management plans, more EPA mandates, and more uncontrollable, built-in costs (such as those created by the EPA's citizen action suit proposal) can only guarantee the erosion of marginally profitable family farm operations.

Securing the plentiful supply of food and agricultural products for the consumers of this nation and the rest of the world must remain the principal reasoning behind our continued agricultural existence. While the 1990 Farm Law solidified our world position, it is clear that we must take the current farm condition along with present federal farm programs, and build upon them so that American agriculture will prosper from now till the year 2000 and beyond. Likewise, this will entail a firm commitment from the Administration to protect the investment in our agricultural livelihood nationwide.

Let us also bear in mind that the formulation and continued implementation of federal farm policy has had a profound impact upon the creation and sustainment of jobs

throughout rural America. The economic vitality of our local communities continues to hinge on the success of our agricultural and related industries.

A prosperous rural economy means greater opportunities for the local folks who sell the farm implements, drive the grain and livestock trucks, deliver the feed, market the seed and fertilizer, and process the fruits of our harvest so as to maintain our position as the most efficient and reliable supplier of the world's food needs. Mr. Chairman, I look forward to working with you and the Committee Members in order to achieve this goal.

Mr. SARPALIUS. To begin to address some of these issues, we must seek input from the administration and all who share an interest in this area. So we extend an invitation to Mr. Keith Collins, the Acting Assistant Secretary for Economics, to speak on behalf of the U.S. Department of Agriculture. As head of the Office of Economics, he is responsible for the Economics Research Services, the World Agricultural Outlook Board, the National Agricultural Statistical Service, and the Office of Energy.

Mr. Collins is also the Director of Economic Analysis Staff, which conducts economic analysis for farm programs, regulations, and legislative proposals.

Mr. Collins, welcome to our subcommittee.

STATEMENT OF KEITH COLLINS, ACTING ASSISTANT SECRETARY, ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Mr. COLLINS. Thank you very much, Mr. Chairman. I would like to start by expressing the appreciation of the Department of Agriculture to have us be the lead-off witness on what is the lead-off hearings on background for the 1995 farm bill for this subcommittee.

I have testimony which I am submitting for the record. You may find it to be a rather ponderous testimony, but I think as you start the 1995 farm bill process, I wanted to ensure that your farm bill file had enough paper in it.

What I will do over the next few minutes is just summarize a few of the highlights that are in that testimony. What I will do is present the context which gives rise to the issues for the 1995 farm bill, and then those witnesses which will follow me today will express their viewpoints, I think, on a number of these issues.

The context is driven by four factors: The economic outlook, which is both the short run and the long run; the structural characteristics of agriculture; agriculture's performance with respect to the environment; and last, the performance of the 1995 farm bill, our current policy. So I will look very quickly at those four contexts: Outlook, structure, conservation, and current programs.

Turning first to the outlook and saying a few words about the short-term outlook, it is of course driven by low stocks and low supplies of crops, and just the opposite, large production and large supplies of livestock products, such as meat and milk. As we begin the 1994 season, the prelude to the farm bill discussion, we have low stocks of wheat, rice, feed grains, cotton, and sugar.

Earlier this month, the Department surveyed farmers to see what their plantings of spring crops were this year, and we release that data tomorrow morning at 8:30, so I don't have that available.

But as we sit here, the numbers that we have been using to this point are an expected increase in plantings of about 5 million acres this spring. That would include program crops plus soybeans.

If we have average yields this summer, combined with that acreage increase, we will see several effects. Let me mention four.

First, the 1994-1995 farm prices will come down as we increase our production. Second, we will rebuild some of our stocks, but I don't think to excessive levels. Third, with greater supplies, we will be more internationally competitive and see more exports such as for feed grains. And fourth, many producers whose financial condi-

tion deteriorated as a result of the 1993 flood and drought will be able to improve their cash flow and their balance sheets.

Now, this kind of a short-term market situation that we have had for the last year or two, which is one of low supplies and market volatility, has given rise to a couple of policy issues. One is the appropriate role of the Federal Government in stocks and stock policy, and second, what is the appropriate role and the alternatives for risk management, and that has given rise to discussions such as insurance.

Let me describe a couple of market developments that we foresee in the coming year. And I will only just mention wheat, corn, and cotton. For 1994 wheat, we expect the crop will be about the same size as last year, as Spring wheat production rises and Winter wheat is down a little bit. Feed use will decline because we will have more corn available. So wheat carryover stocks might go up a little. We foresee a 1994-crop wheat price of about \$3.05 a bushel, down from this past season's \$3.25 a bushel.

Our imports from Canada will continue large through the summer, particularly our feed wheat imports. As we move into the fall and begin the harvest, feed wheat imports should moderate, but it looks as though Durum imports for the crop year will continue at the same level as last year.

At the end of the 1994 season, just as we begin to finalize the farm bill discussion, we will see wheat carryover stocks as a percent of total use of about 25 percent which is about the average of the past 4 or 5 years.

For corn, we are projecting for this summer probably the largest increase in production among crops, a 40-percent increase. Farm prices may average around \$2.30 a bushel compared with \$2.55 for the 1993 crop, so again, a moderate price decline.

The highlight of the coming corn season will be the implementation of the reformulated gas program, the renewable oxygenate requirement. We believe that will boost ethanol consumption by 500 million gallons in reformulated gas markets.

Third, let me mention the cotton market. This is a market which has tightened very dramatically since we announced the only nonzero acreage reduction program, 11 percent last winter. Production is expected to rise next summer but we expect to continue to see strong domestic mill use of cotton and exports. That will keep carryover stocks fairly low. The current stocks-to-use forecast for the 1994-1995 season is about 22 percent, well below the 30 percent target we have been mandated to hit for the last several years.

These crop developments, together with lower livestock prices that we have seen, plus lower milk prices, will combine with higher production costs to reduce aggregate net farm cash income in agriculture in 1994. Income will come down moderately from the 1993 level.

I would like to make a couple of brief comments about the results of our most recent farm costs and returns survey. That is the data we use to get a snapshot of the financial condition of agriculture. And the most recent data show what the adverse effects of the 1993 floods have done to farm financial conditions.

I would like to use our data on commercial-farms to paint this picture. We define a commercial-size farm as one that has annual sales of \$40,000 or more.

Now, these farms, as you know, dominate agriculture. They only account for 30 percent of all farms. But they account for over 90 percent of livestock sales, 90 percent of crop sales, and they receive 85 percent of all Government payments. We track their financial condition by looking at the number of "vulnerable" farms, and by vulnerable, I mean vulnerable to bankruptcy. We do that by looking at two indicators: Their net farm income and whether it is negative, and we look at their debt-to-asset ratio and whether it is above 40 percent. If those two things happen, they have two strikes against them, they are on the edge of failure.

If you go back to the heart of the farm crisis in 1986, 14 percent of our commercial farms were classified as vulnerable to bankruptcy. That has generally improved since 1986, and by January 1, 1993, the number of vulnerable commercial farms stood at 3.9 percent.

However, this January 1, 1994, the number of vulnerable farms increased to 6.3 percent, quite a change in the trend. So we have had this long-term trend of a decline in the number of vulnerable farms, and it reversed in 1993, primarily because of the flood effects.

Much of the increase is due to lower farm income in the Lake States and Corn Belt. For example, farm income in the Lake States in 1993 fell by 50 percent.

So this is a change in agriculture's financial condition. But those farms that were made worse off as a result of the 1993 weather would have an opportunity to improve their condition in 1994 should we get good weather, good yields and normal size crops.

Let me shift and comment just briefly on our longer term projections for agriculture during the life of the farm bill. That would be 1996 through the year 2000. Our projections are based on a continuation of current programs. They are based on the expiration of the CRP, weak demand in the former Soviet Union, but a much stronger world economy over the next 5 years and better demand prospects in developing countries and, in particular, China.

Our current official projections have not incorporated the Uruguay Round since that is not law yet. Our projections assume that from one-half to two-thirds of the expiring CRP contracts would come back into production.

That results in acreage reduction program percentage increases, normally about 5 percent. Despite that, acreage reduction programs still remain low by the end of the decade. The low acreage reduction programs, despite the return of CRP land, reflect some improving income prospects due to the stronger global economy and factors like the North American Free-Trade Agreement and reform of the common agricultural policy in the E.U.

Over the rest of this decade we also foresee fairly large meat supplies, reflecting ample forage and fairly stable feed prices. Nominal farm income would be fairly stable. Real farm income, income adjusted for inflation, would decline.

Outlays on price and income support programs, which have gone from \$16 billion 2 years ago to \$12 billion for this year, would sta-

bilize at around \$9 to \$10 billion a year, with wheat and feed grains each accounting for \$2 to \$2.5 billion in outlays.

Shifting to our Uruguay Round projections, I won't go into those, we have published those results. I would just mention three things which I think are relevant to the environment for the 1995 farm bill debate. Our Uruguay Round projections would overlay on top of our present budget baseline projections.

The first thing I would say is the reduced foreign subsidies and market access and income growth that would derive from the Round are projected to increase our exports by up to \$5 billion by the end of the decade. Right now, farm exports are \$42.5 billion. By the end of the decade, the President's budget projects them at \$51 billion. If you put the Uruguay Round on top of that, exports go to \$56 billion.

The second point is, when you look at the Uruguay Round and put that, again, on top of our current long-term projections, it suggests increasing pressure on the land base to produce food as we move out into the rest of this decade. The Uruguay Round reduces acreage reduction program percentages, for wheat for example, to zero percent by the end of the 1990's. Between 1993 and the year 2000, we see an increase in acreage planted of about 15 million acres in our baseline projections. If you add the Uruguay Round to that, the increase is about 20 million acres.

That leads me to the third point relevant to the subcommittee, and that is how do you think about the CRP, what is the extension strategy of the CRP and the economic consequences?

I think there are two questions there that we can answer. The first question is, if the CRP expires, which is the assumption in our President's budget baseline, is there a strong enough demand to prevent prices from dropping through the floor? And our estimates show that there is.

It would take only a little increase in acreage production programs to offset the lands coming back into production, with farm prices remaining fairly stable.

Second, suppose the CRP were to be extended and keep 36 million acres in the CRP. Combined with the strong demand we foresee in the next decade with improving global economies, would that tighten up the market, create shortages, food scarcity and so on?

We would certainly foresee higher prices, yet our projections would show those prices to still be below target price levels, in fact well below, for a number of commodities.

As you move into the 21st century, that is another question. That is when people who project begin to talk about tightening markets and a need for higher productivity.

I would like to make one or two brief comments on the structural context for the 1995 farm bill that I cover in my testimony. Let me go back to the commercial farms, the 30 percent of farms that sell more than \$40,000 a year in agricultural products. I think an important thing to know about these farms is that they, on average, harvest 425 acres per farm. If you look at the noncommercial farms, that is, the 70 percent of all farms, on average, they harvest only 33 acres.

That data shows why payments and income are concentrated among the commercial-size farms. And among those commercial-

size farms, their average household income is high, higher than the national average. From that comes the policy issues that relate to payment limits and questions such as whether we should be targeting farm program payments.

Another structural issue that comes out of this data is how do you deal with small, low-income farms? If they are harvesting only 33 acres, it is pretty clear that the price income support programs, the general business of this subcommittee, are really not going to be very effective in raising the farm income of those 70 percent of farms.

For example, for wheat, if you raise the target price 10 cents, that changes the income on 33 acres only by about \$100.

I would like to end my comments by commenting on the current environmental and 1990 farm bill implications and their relation to the performance of U.S. agriculture. I think as we look back at how our farm programs performed in the past and their implementation for the future, we should recognize that the 1985 and 1990 farm bills have made remarkable strides in reducing the adverse consequences to the environment by farming. The sodbuster, swampbuster, wetland reserve program; conservation compliance, conservation reserve program, the numerous green payments type of programs we have, such as the integrated crop management program, or water quality incentive projects, all these things together have made remarkable progress in saving wetlands, saving soil, and providing wildlife habitat.

I think we also need to judge the 1985 and 1990 farm bills successful on several other counts. They have increased market orientation. They have improved our competitiveness. They have reduced spending and they have reduced the deficit. I think it is worth recounting the last point about the deficit.

Back in 1989, when we were talking about baselines then, we were projecting that in the 5 years under the 1990 farm bill, we would spend \$66 billion on price and income support programs. Then along came the 1990 Budget Reconciliation Act, which cut farm programs by 20 percent a year.

Well, what did we finally get? We got some added costs that we hadn't anticipated because of disaster assistance. But in the end, we spent \$57 billion over the 1991 to 1995 period, well below the \$66 billion that was projected. So the farm bill did as it was supposed to do.

As we sit here today and look out in the future, we project that from 1996 to the year 2000, for those 5 fiscal years, we will spend below \$50 billion. So we have gone from \$66 billion to the less than \$50 billion on the back of the 1990 farm and budget bills.

In addition to that, if you go back and add the 1985 farm bill together with the 1990 farm bill, we believe those two acts together would be responsible for reducing outlays by about \$7 to \$8 billion a year, roughly about 80 percent a year as we look out over the next 5 years.

Now, the second and last point I would make is market orientation, competitiveness and efficiency were substantially enhanced by the flexibility provisions in the 1990 act. In 1993, producers shifted about 9 million acres of program crop base to other crops under the normal flexibility provisions.

This helps crop rotation, has environmental benefits and helps income returns. Despite fears back in 1990 that these flexibility provisions were decoupling and therefore bad or were going to cause huge destabilizing shifts from one crop to another, those things haven't happened. Flexibility's popularity seems large, and growing.

With that, I think I will end and just restate the way you started, Mr. Chairman, and say the 1995 farm bill's implications for farm programs are going to be significantly influenced by budget restraint and policy objectives. I think our task is to balance the budget limitation with the commodity and conservation program goals.

Thank you. I would be happy to try and answer any questions you might have.

[The prepared statement of Mr. Collins appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Mr. Collins. Your testimony is excellent, and it is very extensive. It covers a lot of different areas. I encourage all my colleagues to look through it. There is excellent material.

You mentioned in your testimony about—and I don't remember the exact numbers you said—about the farms that are vulnerable, that were hit by the floods. What was that percent, and could you elaborate a little bit more on that? Is that in particular areas of the country? Do you think we are going to make it by October this year? Is that an area we ought to be focusing on?

Mr. COLLINS. I would be happy to comment on that. The vulnerability statistics that I mentioned in my oral comments were for commercial-size farms. Those are the ones that we classify as \$40,000 or more a year in annual sales. For those commercial-size farms, I indicated that the percent of those that were vulnerable to bankruptcy, that is, they are right on the edge of sliding out financially, went from 3.9 percent on January 1, 1993, to 6.3 percent this past January. And that is the first time that number has materially increased since 1988.

It has gone steadily down. If you look at all farms, not just the commercial size, the 2.1 million U.S. farms, on January 1, 1993, about 4 percent were classified as vulnerable to bankruptcy. And I believe that is up now to about 5.1 percent. So we have seen the change, the deterioration in the financial condition, for both the commercial-size and for the smaller size farms.

Now, most of the reason for that was farm income drops, not so much debt-to-asset ratio changes in 1993, but farm income reductions. The farm income reductions were concentrated primarily in the Lake States. The biggest reductions were in Minnesota, Wisconsin, Michigan, and into the Corn Belt.

We also had income drops in the southeastern United States. We had some in the southern plains. In areas outside of those regions, we didn't see much increase. Income was stable, for example, in the Pacific Northwest.

As we look out to the future, I think that we have the prospect for seeing a rebound in net farm income in 1994 for those farms that were affected by the flood and by the drought in the Southeast. So there is a potential, I think, for those vulnerability statis-

tics to go down when we take our survey in February and March 1995.

Mr. SARPALIUS. You also talked about where CRP, we have about 15 percent of CRP land, would come back into production. Do you think that with the passage of GATT, if GATT is accepted, that the agricultural sector would be able to absorb that 15 percent, and what impact do you think that would have on prices?

Mr. COLLINS. Well, no one knows for sure how much CRP acreage is going to come back into production. There have been lots of surveys that have been done to estimate that. The most notable was probably the Soil and Water Conservation Society survey in 1993 which estimated that 63 percent of the land would come back into production if contracts were not extended.

It may well be as we get closer and closer to the time contracts expire, more producers will think about that, and that percentage may go up. But at the moment, we have been using in our long-term projections, roughly 50 percent would come back into production.

Some of that will go into forages, pasture. Most of it that returns will go into program crop production. The most affected crop would of course be wheat, where we have about 11 million base acres in the CRP. Corn has about 4 million base acres or so in the CRP.

I think the answer to the question is, we would absorb that returning land for two reasons. One, we believe we will have stronger agricultural demand in the late 1990's.

If you look at the last 5 years, we have had recession in the United States and Canada for the last couple years but not in the other developed countries. As we came out of our recession, we had deep recession in Western Europe and Japan. So there was about a 4- or 5-year stretch where developed countries have had one recession after another.

It looks like 1995 will be a year when Europe comes out of theirs, Japan comes out of theirs, and we will grow at a good rate. There is an opportunity for the developed countries to invigorate the less developed countries of the world and increase global food demand.

So we see increases in exports to absorb part of the land that would come back into production. Two, for the land that couldn't be absorbed, we would have the opportunity or option to use our acreage reduction programs.

Mr. SARPALIUS. Is it at all hinging, though, on your production on the passage of GATT?

Mr. COLLINS. I think we foresee that global income growth in the absence of passage of GATT. The Uruguay Round will undoubtedly have a strong added effect on global income growth. But much of that added growth occurs late in the decade and into the next century.

Most economic forecasts of economic growth under the Uruguay Round show fairly small effects over the next 2 or 3 years but much stronger cumulative effects in the future.

So I would say that we could probably handle much of that land coming back into production without the Uruguay Round, but the Uruguay Round would make it easier.

Mr. SARPALIUS. The gentleman from Minnesota.

Mr. PETERSON. Notwithstanding you, Mr. Chairman. I just want to clarify on the CRP. In your projections, have you made a provision for any increase in the acreage reduction program in those projections to offset what your estimating comes back in?

Mr. COLLINS. Yes, we have.

Mr. PETERSON. What are those numbers?

Mr. COLLINS. I can't remember all the commodities, but I can tell you for wheat, most of the CRP land comes back in 1997 and 1998, and we foresee a need to increase acreage reduction percentages to 5 percent, from zero percent we otherwise would have had under the Uruguay Round.

Mr. PETERSON. So what would that be?

Mr. COLLINS. It is about 5 percent.

Mr. PETERSON. So it would have been zero set-aside and because of CRP coming back in, you are estimating 5 percent?

Mr. COLLINS. That is my recollection of our estimates, yes.

Mr. PETERSON. Are you projecting that that would be absorbed sometime in the early 2000's, is that what you are saying, then, this is kind of a temporary thing for 2 or 3 years, and then it will be absorbed?

Mr. COLLINS. That is correct. We provide the Congress a 5-year projection when we do the President's budget, but we do carry the exercise out 10 years, and we do show wheat acreage reduction programs going to zero early in the 21st century, as speculative as that is. But that is what we foresee at this point.

Mr. PETERSON. Do you know the decision to not include any continuation of this, was that mostly budget driven, or—

Mr. COLLINS. I think the decision is one that generated lots of discussion for a long period of time and continues to generate discussion. And I think it relates to the scoring rules and baseline assumptions under the Budget Enforcement Act.

It is a decision that doesn't come from USDA. It is one that came from OMB. We will revisit that decision to prepare the President's budget update for July 15, and we will go through that discussion yet again.

Mr. PETERSON. So your Department was not necessarily in favor of this, this was driven mostly by OMB?

Mr. COLLINS. An OMB budget assumption, yes.

Mr. PETERSON. Thank you, Mr. Chairman. I appreciate that.

Mr. SARPALIUS. The gentleman from California.

Mr. DOOLEY. Thank you, Mr. Collins. I appreciate the testimony you submitted. Throughout your testimony, you use the reference, a lot of average farm operators, and use in a different context, household income.

How do you define average farm operator?

Mr. COLLINS. We can present data as averages or we can present data distributionally, like some percentage of farms have costs below, \$2 a bushel or—

Mr. DOOLEY. In this case, you have average farm operator, household income is estimated to increase—

Mr. COLLINS. Right.

Mr. DOOLEY. What is that? Is that all 2 million farms that have been averaged?

Mr. COLLINS. That is all 2.1 million farms. What we do is look at the income of the principal operator of the farm. Some farms have more than one operator. In the case where they have more than one, and they all actually manage the operation, we take the household budget of the older of the operators.

And so that is the average household income of the operators, the principal operators, as we define them.

Mr. DOOLEY. So when you are saying their farming accounted for only 14 percent, and you are making a statement that the average farm operator only obtains 14 percent of their household income, which was \$40,000 from farming operations—

Mr. COLLINS. From farm sources, that is correct. That number, of course, is dominated by the 70 percent of farm operators who have very little or no farm income and earn virtually all of their income off the farm.

Mr. DOOLEY. What is that \$40,000 in terms of comparison to the average household income in the United States?

Mr. COLLINS. Very close. Within 5 percentage points, I think, one way or the other. I can certainly provide that for you.

[The information follows:]

In 1992 the average income of farm operator households was \$40,613. This was 4 percent higher than the \$39,020 average for all U.S. households.

Mr. DOOLEY. My concern is, when we aggregate these numbers, and are we designing farm policy based on trying to provide the right incentives to the commercial farm sector, which is truly doing the most to supply the food needs of this country and also to provide the \$41 billion in export commodities, I just really have trouble understanding why you are using these figures to the extent that we are in your testimony.

Mr. COLLINS. I quite agree with you on that point. I think when I gave my oral comments, I did not use those averages, I used commercial operations in all of my illustrations.

I think that it would be very misleading to try and base farm policy on those averages, and in fact that was my point. By indicating that the commercial-size operations who produce 90 percent of food in America, harvest 425 acres, whereas the others, the small ones, have 33 on average, you certainly cannot do something about the income of those two groups with the same set of policy tools. So it really does make no sense to look at that average and think that is the way to infer what the right policy prescription is.

Mr. DOOLEY. I couldn't agree more.

When you are talking about the reduced CRP participation and that land coming back into production, you said that it can be accommodated in the anticipated market environment. And we will still see pretty strong prices that will be stable.

You also made a statement, though, that you will see an increase in ARD percentages above zero in feed grains. I have a hard time understanding, if prices are not going to be declining, if you anticipate there is going to be increased market opportunities, why are you going to even consider increasing ARP's?

Mr. COLLINS. I think the projected increases are extremely small. By the time you get to the end of the decade, they are virtually zero for wheat, except for a couple of years when you have the big increase of the CRP land coming back in. For corn I think the acre-

age reductions are 2.5 percent, certainly far lower than anything we have seen recently with the exception of this year which is flood driven, far lower than any we have seen in the last 3 or 4 years.

Mr. DOOLEY. What is the rationale for having an ARP at all if we are seeing stable prices? You are also saying we are going to have increased markets. Why have ARP's at all?

Mr. COLLINS. I think that is a good question, and considering the small size, we could very easily in our projections have set them at zero.

Mr. DOOLEY. Another point you brought up, and it was one that we have been constantly confronted with, even in the administration's welfare reform proposal, they once again address the targeting issue.

I have a hard time reconciling myself to that policy, if we do have a farm policy that is based on encouraging producer participation in order to reduce production so that it might elevate prices. Should we in fact target those benefits?

I was just wondering, how the Department justifies such policy, if it has these farm programs, that is basically the policy orientation, what is the rationale for targeting those?

Mr. COLLINS. If the rationale is in fact as you describe, one of supply control, sort of an industrial policy, to achieve a certain level production, then it makes sense to provide the incentive to those producers who are producing most of the crop. And you would base the incentive payments on what they produce rather than how much they earn.

I think we have moved into the gray area, though, as we have gone from acreage reduction programs that in the 1980's were, for example, 27.5 percent for wheat, down to zero this year.

The supply control dimension of the farm programs has been reduced. In your last question, you just asked me what would be the need for supply control programs at all.

If that in fact becomes the pervasive philosophy, then it does throw open the question of what is the purpose of the farm program payments. So I think as we moved into that gray area of very low acreage reduction programs, people have focused more and more on this question of financial need.

And of course it has been budget driven, too.

Mr. DOOLEY. USDA has adopted a policy orientation that our farm programs are in fact more a benefit program or income enhancement program—a needs based program versus a supply management policy that I thought USDA was promoting. Has this changed?

Mr. COLLINS. I don't agree that USDA has adopted the position that our programs are needs based or the payments ought to be needs based. I think the only shred of evidence for that would be the administration's welfare reform proposal of excluding those with high off-farm incomes from payments.

And most of those who have high off-farm income are not principally engaged as farm operators. I mean, the test on that proposal is \$100,000 or more in off-farm income. We haven't done it, but I would venture to guess if we surveyed them and asked what their principal occupation was, probably most of them would not say farming.

Mr. DOOLEY. I am concerned about some of the statements in your testimony in terms of where USDA is going, because most farm households do not receive farm program payments, because payments are determined by the amount of base acreage farm. Only a small percentage of payments go to farms in poor financial condition, and the household will receive less than 5 percent of the total Government payments.

I guess my concern is, are those statements in fact implying that we are making a change in direction here? Is this a policy that USDA—

Mr. COLLINS. I want to be clear on that, then. My comments here today are intended to lay out the context for the debate that is coming this fall, next spring, next summer.

That context includes the data, the facts of agriculture. Those facts include the distribution of payments.

And out of that gives rise to policy issues such as payment limits and targeting. Those issues come from that set of facts that you and I are talking about.

I lay those on the table only to help provide information to the committee and would say that the Department of Agriculture at this point has no position on that. We are in the early stages of formulating our farm bill position right now.

Mr. DOOLEY. I appreciate that, because it is kind of hard to determine what in your statement, is an estimate of the future under status quo versus some policy alternatives USDA might be promoting.

And another concern that I have is that in looking to the future, there was very little reference in your testimony to any of the programs that are currently being utilized that revolve around expanded market opportunities, whether it be MPP, or the GSM programs. These programs will in fact provide the tools to production agriculture to access and be more competitive in markets that you very clearly identified are going to be emerging.

And hopefully that is not indicative of the priority they are viewed upon within USDA.

Mr. COLLINS. No, certainly not. I didn't include those because Mr. Penny just had a hearing within the past week on that very subject. In retrospect, I probably should have had some section in there which would have taken my testimony from ponderous to ponderous squared.

But I think your point is exactly right. We look upon those as extremely important. If we are continuing on this path toward a market-oriented agriculture, which was set in place in 1985 and again in 1995, then what is most critical for American farmers is to find ways to expand their markets and find ways to reduce their costs of production and become more efficient.

That suggests that you look at things like flexibility, it suggests you look at things like our research programs and see how they can be better targeted, and I suggest you look at our export programs. In light of the Uruguay Round, export subsidy disciplines, we have to look creatively at our exports. That is one of the big issues you will have to confront over the next 6 months to a year.

Mr. DOOLEY. Thank you.

Mr. SARPALIUS. Mr. Collins, we have a vote on. Would you mind staying? We have a couple of other members who would like to ask you questions.

We will run and vote and be right back. Thanks for your patience.

[Recess taken.]

Mr. SARPALIUS. Mr. Collins, thank you for your patience. I am sorry, we had two votes there.

President Clinton has brought up the idea of means testing for farm programs to pay for welfare reform. All farm income of \$100,000 or more would be eligible for farm program payments, in an effort to target assistance to so-called family farms. This is not a new concept. Prior to 1990, farm bill payment limits were also considered and rejected by Congress.

I would like to know USDA's position on means testing, and also do you believe that this concept could become a reality?

Mr. COLLINS. That is a tough question, Mr. Chairman. Let me just start by repeating what you said. This is not a new idea. This was proposed in two different Presidents' budgets that I know of, perhaps even three, over time. The proposal finally evolved to the point where it would exclude from payments producers that have \$100,000 or more in off-farm income.

There is a lot of devil in the details in that, what is farm income, what is off-farm income, who is a producer, who is not a producer? That proposal would apply, we think, to a very small portion of individuals.

To give you an example, the most recent IRS data that we have has something in the order of 800,000 individuals who filed a schedule F with their income tax return, and roughly 30,000 of those had \$100,000 or more in off-farm income, which is roughly 4 percent.

There were a total of almost 2 million schedule F filers in the returns for that year. And so this is 30,000 out of 2 million, roughly. So it is a fairly small number. And the amount of budgetary savings associated with that is also fairly small. It is about \$100 million a year.

Having said all that, I think I can only add that this is an administration proposal, the USDA is part of the administration, so the USDA's position is the same as the administration on this. But we do recognize that there are an awful lot of problems in implementing this, and there are an awful lot of problems in actually achieving the savings from it.

The biggest problem is that people could undertake ways of circumventing this discipline, for example someone who has more than \$100,000 in off-farm income and has a share rental arrangement, receives a check from USDA through their share rental arrangement, could shift to a cash rental arrangement, still essentially get the benefit of the program, but the USDA check would go to the tenant rather than the landlord.

We think we have taken most of those adjustments into account when we have estimated the savings. Your second question was, do I think it could happen, could it become a reality? If history is any guide, it hasn't happened so far. I just don't know the answer to that question. That is certainly up to Congress to decide.

Mr. SARPALIUS. Recently, GAO released a report on wheat support, analyzing the impact of target prices versus export subsidies. It was concluded by GAO that even increased exports by 3 to 11 percent raised wheat prices by 0.4 to 12 percent.

I am sure you have had a chance to see—have you seen that report, that GAO report?

Mr. COLLINS. I think I have, and I really can't remember the details of it.

Mr. SARPALIUS. Let me ask you, in your opinion, do you think on improving net farm income for most crop producers, is it better to invest in even or is it better to invest in hard target prices?

Mr. COLLINS. I am not sure I know the answer to that question. I think a lot of the outcome would depend on how effective you think the export enhancement program is. I think we have research results that suggest that in the number of years since its inception, its effect on exports could be higher than the 3 to 11 percent range that you quoted.

I think the concepts are really different. The target price is pure and simple income support. The export enhancement program exists to counter unfair trade subsidies, it exists to provide market expansion. I think the two have very different policy objectives.

I realize that is not your question. Your question is, "Which is more effective in raising income?" I don't think I can answer that question. I really don't know the answer to that at this point. But I do think you have to take into account the policy objectives of the two programs as being quite different.

Mr. SARPALIUS. That is part of the debate we are having now with GATT.

Mr. COLLINS. I would be happy to take a look at that. I would like to have the opportunity to go back and look at that GAO report. I would be happy to give you my view in relation to the cost effectiveness of those two approaches.

Mr. SARPALIUS. I would greatly appreciate it.

[The following information is provided for the record.]

The GAO report concluded that higher target prices to producers would increase producers' net income from wheat production more than an equivalent level of indirect support through subsidies granted under the Export Enhancement Program (EEP). GAO estimated that the EEP increased wheat producers' net income by \$259 million per year, while increasing the target price would have increased wheat producers' net income by \$314 million per year, given the same budget for each alternative.

The estimated difference in net farm income between the two programs of \$55 million per year amounts to an annual increase of less than one percent in wheat producers' net income, which average \$6.54 billion over the analysis period. Furthermore, additional simulation analyses conducted by GAO indicates that reasonable changes in basic assumptions about the effective of EEP in raising exports can lead to the conclusion that EEP increases farm income more than an increase in target prices. Thus, I believe it is proper to interpret the GAO report as indicating that both programs lead to nearly the same increase in farm income.

As noted by GAO, the EEP has impacts that direct income support payments do not, namely, more exports and higher income for grain-marketing firms. In addition, the program may pressure foreign competitors to reform policies that distort trade and to enter trade agreements to reduce trade-distorting subsidies. Such reforms and trade agreements expand trade opportunities and increase economic growth, contributing to expanded markets for U.S. agricultural products. These positive benefits should not be overlooked when comparing a target price increase with additional funding for the EEP.

Finally, I believe increasing the target price for one commodity, such as wheat, would lead to pressure to increase target prices for other commodities as well. Of

course, budget constraints will likely prevent us from raising target prices in the 1995 Farm Bill and the Uruguay Round Agreement will place limits on export subsidies.

Mr. SARPALIUS. The gentleman from Michigan.

Mr. SMITH of Michigan. Thank you very much. On the CRP land coming back into production, how significant are those 36 million acres coming back into production going to be in depressing feed grain prices or other prices?

Mr. COLLINS. I think the answer to that really depends on how fast demand grows as that land comes back into production. I think our feeling has been the combination of what we expect in demand growth with our ability to use acreage reduction programs could prevent prices from being depressed. We think we could maintain prices, for example, at the levels they have averaged over the last few years with a small increase in the acreage reduction programs.

Mr. SMITH of Michigan. Still, we have always had that ability to adjust set-asides. So do I understand you to suggest that the additional demand be generated from the Uruguay Rounds might offset those acres coming back into production?

Mr. COLLINS. Generally, I would say that is true. We don't have the Uruguay Round yet. But if I were to add the effects of the Uruguay Round on top of what we already foresee without a Uruguay Round, that would by and large absorb most of that returning acreage by the end of the decade.

Mr. SMITH of Michigan. And so you are comfortable in terms of maintaining farm income and commodity prices, to allow all that land to come back into production?

Mr. COLLINS. I think if all of that land were to come back into production, we could probably nearly maintain nominal farm income. I think real farming income, income adjusted for inflation, would probably decline some over the period.

Mr. SMITH of Michigan. Has somebody in the Department calculated what percent of that land is coming back into production, and how fast it will come into production for each one of the next 4 or 5 years?

Mr. COLLINS. We have indeed projected that, yes.

Mr. SMITH of Michigan. Could I have a copy of that projection?

Mr. COLLINS. I would be happy to provide it. We do provide that as background or backup material to the President's budgets. I would be happy to give you a copy of that.

[The following information is provided for the record.]

The tables show the February 1994 President's Budget projections, in millions of acres, for acreage planted and acreage in the Conservation Reserve Program.

1991/92 1992/93 1993/94 1994/95 1995/96 1996/97 1997/98 1998/99 1999/2000 2000/01 2001/02 2002/03 2003/04 2004/05 2005/06

Planted acreage, 8 major crops

Corn	76.0	79.3	73.7	80.0	78.5	78.5	80.0	80.5	81.0	82.6	82.6	82.8	82.9	84.3	84.4
Sorghum	11.1	13.3	10.7	11.3	11.0	11.0	11.0	11.4	11.6	11.8	11.8	11.9	11.9	12.0	12.0
Barley	8.9	7.8	7.9	8.0	8.0	7.9	8.4	8.6	9.0	9.2	9.2	9.2	9.2	9.2	9.2
Oats	8.7	8.0	7.9	6.0	6.9	6.6	6.7	6.8	6.8	6.9	6.9	7.0	7.0	7.0	7.0
Wheat	69.9	72.3	72.1	72.1	72.6	70.0	71.6	73.0	72.3	73.1	73.2	73.5	73.6	75.4	75.7
Rice	2.9	3.2	3.0	3.4	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Up. cotton	13.8	13.0	13.3	13.0	12.5	12.6	12.8	12.8	12.9	13.0	13.3	13.3	13.3	13.3	13.6
Soybeans	59.2	59.3	59.5	60.5	59.5	59.0	60.0	60.5	61.0	61.8	62.5	63.0	63.5	64.0	64.5
Total	250.5	256.1	248.1	254.2	252.1	248.7	253.6	256.7	257.7	261.5	262.6	263.8	264.5	268.3	269.5

Conservation Reserve Program acreage, 8 major crops

Corn	3.9	4.1	4.3	4.3	4.3	4.5	2.3	1.8	1.2	0.8	0.8	0.6	0.3	0.3	0.3
Sorghum	2.4	2.4	2.5	2.5	2.5	2.3	1.3	0.7	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Barley	2.8	2.8	2.8	2.8	2.8	2.8	1.8	1.0	0.5	0.2	0.1	0.1	0.1	0.1	0.1
Oats	1.3	1.4	1.4	1.4	1.4	1.4	1.0	0.6	0.4	0.2	0.2	0.1	0.1	0.1	0.1
Wheat	10.4	10.6	10.8	10.8	10.8	10.6	7.0	4.1	2.4	0.9	0.8	0.6	0.4	0.4	0.4
Rice	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Up. cotton	1.3	1.4	1.4	1.4	1.4	1.5	0.8	0.5	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Soybeans	3.8	4.0	4.2	4.2	4.2	4.2	2.6	1.8	1.2	0.8	0.7	0.5	0.3	0.3	0.3
Total	25.8	26.6	27.4	27.4	27.4	27.2	16.8	10.4	6.4	3.2	2.9	2.1	1.2	1.2	1.2

Mr. SMITH of Michigan. Can you give me just an estimate of what percentage of this land you think has grown up enough or has been planted to some kind of a tree enterprise or for some other reason won't be coming back into production in the next 10 years?

Mr. COLLINS. I can refer you to Soil and Water Conservation Society's survey taken I think in November of 1993, which estimated that roughly 40 percent would not come back into production.

[The information follows:]

Respondents to the 1993 Soil and Water Conservation Society survey of Conservation Reserve Program (CRP) participants indicated the following intended uses of their CRP land after contract expiration:

	<i>Percent of acreage</i>
Use:	
Return to cropping	63
Keep in grass for hay or livestock forage	23
Keep in trees for timber production	4
Keep in grass/trees for wildlife/recreation	2
Keep in grass/trees with no use	3
Sell	3
Other or unknown	2
Total	100

Current USDA CRP contract data indicate the following existing uses of CRP land:

	<i>Percent of acreage</i>
Use:	
Tame grass	62
Native grass	25
Trees	7
Wildlife practices	5
Other	1
Total	100

Mr. SMITH of Michigan. Are we seeing overall a continuing migration away from the farm and production agriculture? Also, what do the statistics show about the expansion of average farm size and the declining number of farmers?

Mr. COLLINS. I think we are right at a point now where we expect to see over the coming years that much of the migration out of agriculture will be the older farmers. The average age of farm operators today is about 54 years. There have been projections about dynamics, the entry and exit of agriculture over the next few years, and an awful lot of those that leave will be the older farmers.

Having said that, it is really hard to generalize. Earlier in my comments I talked about what we call the vulnerable farms, those in the most financial stress, most subject to bankruptcy, and it turns out that there is a higher proportion of those farmers that are younger.

Many of them have higher debt. Debts to assets is one of the factors we take into account when we look at farms vulnerable to bankruptcy. So it is hard to generalize. But it looks like, based on the portion of farmers vulnerable right now, those that would be forced out of agriculture for a variety of reasons, a higher propor-

tion of them might tend to be younger. However, those that go out voluntarily, those tend to be older.

Mr. SMITH of Michigan. I heard you mention the average farm income, roughly \$40,000, represented a population in agriculture where 70 percent on the average was off-farm income. What if you were to look at those farmers that depend, say, 80 percent on the farm for their income? How would their income compare? What is their average income?

Mr. COLLINS. Actually we look at these data by sales class, by the amount that a farm sells each year. And the statistic that Mr. Dooley was talking about was the average household income for all farms, which is about \$40,000. But that is farm and off-farm earnings combined.

If you were to break that down to the small farms versus the large farms, you would find the total household incomes aren't that much different. For the small farms, though, it turns out virtually all of that income comes from off the farm. For the larger farms, with more than \$40,000 in sales, as you would expect, a larger proportion comes from on the farm activities.

Mr. SMITH of Michigan. So you don't have a calculation?

Mr. COLLINS. I don't have it in my head, but I would be happy to provide you with the data.

[The information follows:]

The table shows average farm operator household income, by source in 1991 for different sales classes of the farm:

Sales Class	Farm-related income	Off-farm income	Total income
All farm households	\$5,809	\$31,638	\$37,447
Less than \$50,000	- 1,840	35,662	33,822
\$50,000 to \$99,999	12,082	19,426	31,508
\$100,000 to \$249,999	22,307	18,164	40,471
\$250,000 to \$499,999	47,333	23,997	71,330
\$500,000 and more	143,421	34,489	177,910

Mr. SMITH of Michigan. Is it the large and medium size farmers that depend to a greater extent on the farm enterprise?

Mr. COLLINS. It depends on where farm size falls. If you are in the middle size, if your sales are \$40,000 to 100,000, the household income of those farms tends to be lower than those very small farms that don't depend on farm income, and it is lower than those very large farms that have sales, say, more than \$250,000 a year.

Roughly, for those small commercial farms their household income is something like 15 to 20 percent below the national average.

Mr. SMITH of Michigan. Is there a significant difference between the net farm income of the middle size—have you calculated those farms that depend primarily on farm income for survival as a classification, as a category?

Mr. COLLINS. No, not that category. I am not sure how we would classify them according to that.

Mr. SMITH of Michigan. I am just wondering if the trend is to have part of that farm workforce taking an off-farm job to survive in agriculture.

Mr. COLLINS. That is absolutely a trend, particularly for the smaller, more limited resource farms. They are very dependent on

off-farm income. You are not going to affect those producers with price and income support policies.

The best way to affect those producers is through improving their educational attainment or achievement or providing off-farm job opportunities or providing some kind of technical assistance that might help them in diversification or getting larger, or maybe credit, which would help them capitalize themselves and get larger.

But for the smaller size operations, they are very dependent on off-farm income. That is a trend that will continue.

Right now, we say that of the total income earned by farm operator households, roughly 12 to 14 percent is from farm sources. If we were to project that out to the end of the decade, that would likely fall well below 10 percent.

Mr. SMITH of Michigan. So does this mean that for a strong, viable, and stable agricultural enterprise, the agricultural sector of this country today is more dependent on the availability of the manufacturing or other off-farm jobs?

Mr. COLLINS. I would say it is true for the smaller size farms. It is very difficult to generalize about agriculture, because we have this tremendous dichotomy. We have very large, highly capitalized, efficient farms that make in many respects a good income. We have 2 percent of the farms that earn something like 30 or 40 percent of the income. So we have this kind of very—

Mr. SMITH of Michigan. Of the net income? Is that right?

Mr. COLLINS. Yes. So we have a large group of very small farms, 1.5 million farms, that in the aggregate earn virtually no farm income. They earn something on the order of 10 percent of the total U.S. farm income. And we have the other 600,000 farms that are earning 90 percent of the farm income. Within that other 600,000, we have some very large concentrated operations that earn an awful lot of income.

So when you start talking about income statistics for agriculture and trying to generalize from that, it is very difficult. The policy options that affect the bottom line differ depending on which size category farm you are looking at.

So this question about off-farm income, I don't think it is that important for the larger size operations that are producing most of the food and fiber for America.

But it is much more important for those very small operations that we still classify as farms because they meet the census definition of a farm, but are, in all practical respects, rural residences and not farms.

Mr. SMITH of Michigan. Thank you.

Thank you, Mr. Chairman.

Mr. SARPALIUS. The gentleman from North Dakota.

Mr. POMEROY. Thank you, Mr. Chairman. Mr. Collins, your testimony is extremely interesting. I note among the baseline assumptions, no provision for the conservation reserve program, like Mr. Smith, I must apologize if you have covered some of this ground before, but does that reflect an inclination in the administration that this program will not be renewed in any fashion?

Mr. COLLINS. I think that reflects a budget assumption. At the time the President's budget was developed, what we tried to do in February was to define what is a current services budget. There

are some guidelines for that in the Budget Enforcement Act. And based on those guidelines, it was determined that an appropriate baseline which continues current policy, because the ability to continue enrollment after 1995 would end, would provide for expiration of the contracts.

I say that was not intended to be a signal of the administration's position on the conservation reserve program. And I would say that that assumption about the expiration of the CRP will get reviewed again, and will either be affirmed or not when the President's budget is updated on July 15, of this year.

Mr. POMEROY. Implicit in the CRP assumption that some of the acres will come back into production, not all. Are you aware of percentages at all?

Mr. COLLINS. I just gave those to Mr. Smith. I think there are a range of studies that have looked at that question. And generally they show 50 to 60 percent would come back into production. The most recent one, as I mentioned, was this survey taken in November. Of course, that was a time of very high prices. That was a time when it was more attractive to bring that land into production because of the high prices. So we got one of the higher estimates, of all the estimates that are out there. Sixty-three percent would come back into production.

On the other hand, you don't know how a producer is going to answer that question. When you ask them if they are going to bring that land back into production, and it is not going to come back into production until 1997 or 1998 and you are asking them in 1994 to give you that estimate, when it gets up to the point where that contract expires and they have to make a decision whether to leave that land idle or not, we may well see some of those percentages actually go up as farmers decide they want to try and get income off of that land rather than leave it idle. But for right now, we are using roughly 50 to 60 percent.

Mr. POMEROY. Knowing North Dakota producers, I would expect that is substantially on the low end. Another concern in North Dakota, which is primarily a grain production area, involves the plight of oilseeds under the GATT in that oilseeds, as we strive for crop diversity, oilseeds have provided some opportunity for our region.

No other commodity takes the type of reduction that oilseed export subsidies face, a 79 percent reduction off of the 1991-1992 fiscal year, under even, SOAP and COAP. And the administration has indicated they expect to capture \$1 million off of reductions in deficiency payments in light of increased world trade and higher market prices resulting therefrom under the GATT.

I don't think it adds up. I think that is a baseless rosy scenario. If you look at no assistance to oilseeds, I think you are looking at a real commodity killer. And that opportunity for diversification of agriculture in North Dakota is therefore less attractive by a long shot than it is today.

Adding the increased production in wheat from the—if we fail to do something about continuing CRP, and a big question mark hanging over whether the Canadian dumping into our market will be resolved or not, I think I really don't see a basis for reductions

in deficiency payments, in light of my fairly pessimistic outlook for wheat going forward.

Would you respond to that?

Mr. COLLINS. I think the economics of what you said make sense. I think that vegetable oils under export assistance programs do take a tremendous decline under the Uruguay Round. But that is of course because the base period for subsidized vegetable oil exports was quite low. It has been in the early 1990's that exports have gone way up. So indeed subsidies would decline. And I know that is a point of concern and people are looking at options for expanding vegetable oil sales in other arenas.

And I think you are right, to the extent that vegetable oil should it become less attractive, less profitable because of the reduced export assistance programs, could lead to some substitution of Spring wheat for oilseeds. I don't disagree with that.

I also agree about the Canadian issue. I would, however, say no one knows what the Canadians are going to do. We try and forecast based on the relative supply and quality of the U.S. crop versus the Canadian crop. And for right now we are showing for the 1994-1995 season a reduction in U.S. imports from 100 million bushels in 1993-1994 to 80 million bushels in 1994-1995. But as you pointed out, the Canadian Wheat Board is free to price the way they want, to take advantage of the premium in our market compared to their other markets around the world.

So we don't know for sure whether that 80 million bushels will prove right. But based on our current projection, we would show modest increases in U.S. wheat imports out through the rest of the decade.

That is our set of numbers. We may be wrong. You may be right. It may be a higher number, and I understand your logic for that completely, having spent some time discussing this issue with the Canadians themselves.

The deficiency payment savings that is being used as a discussion point for paying for the GATT implementing legislation is a savings on the order of \$700 million, which is accumulated over 5 years 1995-1999. So it is really not a very big deficiency payment savings.

Mr. POMEROY. I believe the \$700 million figure is tariff savings, and \$1 billion deficiency. Is that how I understood that?

Mr. COLLINS. I know everybody has a different interpretation of these numbers. Since there is so many of them that have been discussed. Let me take a shot at trying to explain these numbers.

For a long time, the Department and other people said that the forgone tariff revenue was \$600 million. The \$600 million was based on 1992 trade levels with the tariff reductions imposed by the Uruguay Round applied to the 1992 trade levels. That is a number that had common currency for a long time. When CBO and the Office of Management and Budget began looking at these numbers, they said you really can't use 1992 trade levels because, over the decade, there will be expansion of trade, there ought to be some growth factor applied. So OMB's reestimate of this was that the forgone tariff is \$800 million over the five calendar years, 1995 through 1999. It is basically the 1992 trade levels inflated for the out years.

If you were to put that on a fiscal year basis the estimate is \$700 million, if you assume the Uruguay Round begins on January 1, 1995. If you assume it begins on July 1, 1995, that actually knocks the estimate back to the original \$600 million. So my point of this illustration is that there is a range of numbers that people have talked about in the public domain about forgone tariff revenues.

Now, put those aside. Then on the other hand is the so-called \$1.7 billion in savings. My understanding of that is that there are two components. There is \$1 billion due to reduction in export assistance programs and \$700 million in savings in deficiency payments.

Mr. POMEROY. I may have misunderstood that. I want to thank you for your assistance on the Canadian problem, which is a very serious one, and I think the USDA's analysis has been quite helpful in getting administrative support. We may need to draw upon you as we attempt to convince House colleagues about the importance of having language in article XXVIII that will allow us to deal with this matter.

Mr. COLLINS. I had the opportunity to be out in Chicago on Monday of this week for discussions with the Canadians there. And I can only reinforce your comment. It is very important to have that article XXVIII authority. It is certainly the avenue we are pursuing at this point.

Mr. POMEROY. No further questions, Mr. Chairman.

Mr. SARPALIUS. Mr. Collins, thank you very much for your testimony, your time, your patience. And I appreciate your taking the time to come down here and visit with us.

Mr. COLLINS. Thank you very much, Mr. Chairman. I hope it was helpful.

Mr. SARPALIUS. I now call the second panel. We will hear from Mr. Steve Yoder, the American Soybean Association; Mr. Bruce Brumfield, president, National Cotton Council of America; Mr. Carl Schwensen, National Association of Wheat Growers; Mr. Bob Bor, U.S. Rice Producers Association.

I would like to ask each of you gentlemen if you wouldn't mind trying to keep your testimony to 5 minutes. We have a little light there that tells when your time's over, so we can ask you some questions.

I want to welcome all of you to the subcommittee. We look forward not only to your testimony today but to working with you as we begin to work toward the 1995 farm bill and many of the other problems facing the commodities that you represent.

Mr. Yoder.

STATEMENT OF STEVE YODER, CHAIRMAN, BOARD OF DIRECTORS, AMERICAN SOYBEAN ASSOCIATION

Mr. YODER. Good afternoon, Mr. Chairman, and members of the subcommittee. I am Steve Yoder, a soybean and peanut farmer from Altha, Florida, chairman of the board of directors of the American Soybean Association. ASA is a producer supported and directed national trade organization representing all U.S. soybean growers.

We very much appreciate the opportunity to be here today and to present our perspective on the economic outlook for U.S. soybean

growers. Mr. Chairman, profitability in the soybean sector, as in any industry, is a function of increasing demand and reducing cost. In our sector, demand has been driven by growing consumption of high protein soybean meal by United States and foreign livestock sectors. Demand for soybean oil has also grown, but so has competition from other domestic and foreign oilseed producers.

As U.S. soybean production expanded in the 1950's and 1960's, soybean oil became established as the standard in U.S. margarine and salad oil markets. At the same time, surplus soybean oil became a major export under the food for peace program. The combination of expanding protein demand and policies designed to balance corn and soybean production encouraged ASA's orientation toward free trade in agriculture during the 1970's and 1980's.

During the 1980's, two shifts in policy reversed the boom in the U.S. soybean industry. First, U.S. farm programs came under increasing pressure to reduce Government outlays. The short drop in the corn loan rates under the 1985 farm bill undercut soybean prices and raised the importance of target prices and base acres.

Second, U.S. efforts to defend export markets for wheat and barley encouraged our foreign competitors to expand oilseed production. As the United States lost 15 million acres of soybean and sunflower production between 1983 and 1990, Brazil, Argentina, Canada, and the European Community increased their acreage planted to soybeans, sunflowers, and rapeseed by an almost equal amount.

In addition, U.S. competitors have increasingly targeted trade in vegetable oil as opposed to oilseeds. This policy has encouraged development of oilseed processing facilities which, in turn, is encouraging expanded oilseed production.

The Uruguay Round agreement represents a crossroads for the U.S. oilseed sector, Mr. Chairman. Our industry welcomes these negotiations and supported the original U.S. objectives of eliminating all trade distorting practices believing we had far more to gain than to lose from trade liberalization. We pursued a zero-for-zero policy to eliminate all import barriers and Government export incentives long after the Bush administration abandoned this goal of the Uruguay Round.

Unfortunately, the final agreement will reduce U.S. vegetable oil exports under EEP, SOAP, and COAP by 79 percent over the next 6 years without requiring any cuts in exports by our competitors. Based on 1991-1992 levels, this reduction will exceed 500,000 tons of lost oil exports per year by the year 2000. In addition, the Uruguay Round includes practically no commitments by importing countries to reduce tariffs on vegetable oil.

As Congress prepares to consider legislation to implement the new GATT agreement, we find ourselves in the very uncomfortable position of asking for protection from a trade agreement originally intended to liberalize world trade.

As you know, Mr. Chairman, the U.S. oilseed industry is united in asking the administration and Congress to offset the impact of GATT through a program developing new domestic markets for industrial products based on vegetable oils. We are also proposing that vegetable oil supplies exceeding historical levels be purchased for food aid or for industrial uses. We ask members of the subcommittee to support these measures as an amendment to the

GATT implementing legislation to ensure our industry is not unfairly penalized for past efforts to support more open world trade.

To date, the administration has refused to acknowledge the very real and adverse effect the Uruguay Round will have on U.S. vegetable oil exports over the next 6 years. If we are unable to obtain relief in the administration's bill to implement GATT, our industry will be forced to take a more aggressive position on future domestic and international trade issues, including provisions of the 1995 farm bill.

As you know, Mr. Chairman, soybeans and other oilseeds are traditionally grown in rotation with feed grains, wheat, and cotton. Annual soybean production has been less a function of retaining and maximizing farm program benefits as it has been a response to market conditions. This has made oilseed production and profitability highly vulnerable to foreign competition in domestic and foreign markets. We have seen clear evidence of this vulnerability as U.S. oilseed acreage has eroded over the past decade.

I appreciate very much the opportunity to be here. We intend to play an active and constructive role in encouraging farm programs that benefit producers.

[The prepared statement of Mr. Yoder appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you very much, Mr. Yoder. Next, Mr. Brumfield.

STATEMENT OF BRUCE BRUMFIELD, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

Mr. BRUMFIELD. Thank you, Mr. Chairman, and distinguished members of the subcommittee. My name is Bruce Brumfield. I serve as president of the National Cotton Council of America, the central organization of the U.S. cotton industry. I operate a diversified farming operation near Inverness, Mississippi. Cotton is my primary cash crop but I also produce soybeans and catfish.

I commend you, Mr. Chairman, for holding this hearing and appreciate the opportunity to participate. Before I address the state of the cotton industry and the cotton provisions of the farm law, I want to mention our concerns with the GATT implementing legislation.

We are deeply concerned, as I know you are, about the rumors that agriculture may be asked to bear a disproportionate share of the cost of implementing this agreement.

We applaud your opposition to that notion and urge your continued efforts to ensure that budget offsets are not damaging to agriculture. We support your efforts to ensure that EEP, DEIP, COAP, and SOAP can continue to function effectively. We also support efforts to ensure agriculture's budget baseline is protected, and funds are fully utilized in so-called green box activities to develop and defend export markets.

A final word about GATT, Mr. Chairman. I am deeply concerned there is a prevailing misconception among policymakers and the public that the new GATT will reduce or eliminate the need for agricultural programs. Obviously nothing could be further from the truth. And we want to be sure as many people as possible understand exactly what the GATT realistically accomplishes.

With respect to the current cotton situation, I am pleased to report that the U.S. cotton industry is much improved over what it was prior to the implementation of the marketing loan in the 1985 legislation. Total off-take has expanded by more than 50 percent since the 1980 to 1985 premarketing loan years.

I am also pleased to report that cotton program cost have fallen dramatically after the sharp increase resulting from the disorder created in fiscal years 1992, 1993, and 1994 by the breakup of the Soviet Union.

On balance, our program costs have fallen while our industry has expanded dramatically. That seems highly relevant given cotton's leading role in generating revenue and jobs.

While we strongly support continuation of the cotton title of the farm legislation, there are important common provisions which will impact the operation of our program. I will also mention provisions of the commodity programs which are virtually identical in each title.

Our top priority is opposition to any further limits on program benefits, means test organize any other procedures that would deny benefits to operations based on size, management organization, or income.

Mr. Chairman, I know other organizations may favor additional cropping flexibility, but cotton is the only commodity with a net acreage gain as a result of the normal provisions. They have a unique concern about increasing flexibility. I am sure we all agree that an increase in unpaid flex acres would be an unpopular choice among all farmers.

To quickly review our other interests in the so-called common provisions of the farm bill, we support some equitable adjustment in payment yield and harmonization of base calculations. We believe many of the problems with inequities in base and yields could be addressed by utilization of discretionary authority.

We support authority for advanced deficiency payments and voluntary paid diversion. We are comfortable with the CCC sales price restrictions for cotton. We support the establishment of a National Appeals Division for appeals which may move beyond the local level. There are also provisions in the commodity titles which are almost identical. We strongly oppose implementation of cross and offsetting compliance. We support the 0/85 program. We support alternative nonmarket disruptive uses of nonvital acres and a targeted option program.

Mr. Chairman, one of the most significant decisions that needs to be made is the future establishment of the CRP. We have urged the Secretary to utilize his discretionary authority to revise and extend contracts. This program has generated important economic and environmental benefits. We also need to make every effort to extend the budget baseline to preserve our options.

Mr. Chairman, the farm bill has worked well for a majority of our industry. It is not perfect, but I would not want to report to you on the state of our industry had the current law not existed.

We applaud the interest in risk management and export promotion programs and we remain skeptical of wholesale modifications like decoupling, a 100 percent base flexibility and green papers. We look forward to working with you and the members of this

subcommittee as you craft GATT implementing legislation, crop insurance reform, and the 1995 farm bill.

I thank you sincerely for the opportunity to participate in this hearing today.

[The prepared statement of Mr. Brumfield appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you. Next, Mr. Schwensen.

**STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE
PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS**

Mr. SCHWENSEN. Thank you very much, Mr. Chairman. Your subcommittee has my testimony. I would like to make about three points from that this afternoon.

I want to emphasize the export dependency of wheat, a major commodity in the United States. We are the fourth largest wheat producing nation in the world, and the first largest exporter. Our exports amount to \$5 billion annually; a major contribution to our positive export agricultural trade balance. Wheat is a workhorse for this Nation's economy, both domestically and in export trade.

Looking at the wheat situation in the 1994-1995 season, we see it to look pretty similar to that of the past season. Our production is going to be down 2 percent. Consumption is going to be down about 4 percent. Our ending stocks will be up by about 10 percent. What is going on in the world is Europe is going to have a pretty similar crop to last year. Canada's crop will be down. Australia's crop will be up some. We do see some increase in world demand, particularly in China, also in the former Soviet Union, assuming credits are available for the FSU to purchase.

So there will be some slight increase in world wheat trade, but a decline in the U.S. share of that trade.

I also want to comment on budget constraints very quickly, and on trade agreements. In the area of budget restraints, we have attempted to endure the impact of the triple base decoupling concept.

Members of the subcommittee, I believe, understand quite well the difficulty that wheat farmers have in benefiting from any flexibility that is offered under modified decoupling schemes. Our farmers have very few planting options. When they are given nonpayment acres and told they have the opportunity to generate maximum income from whatever crop that they can find to be the most available, they have few options to look at.

So the feature of flexibility is not of great economic value to our farmers. The CRP program has been mentioned. Of the total acres enrolled in that, 11 million have been wheat base acres, although they are beginning to come out as contracts mature. 1995, and 1996, 1997, and 1998 will be big years for wheat contract expirations.

We are hopeful that there will be extensions of existing contracts to allow those farmers that want to extend to do so, and that we can go through this transition period without an increase in the national acreage reduction program to establish what otherwise would be an equilibrium.

We see no reason to rearrange conservation acres. Conservation acres have been well kept under the conservation reserve program; we think that the program should continue.

On the trade side of things, the GATT agreement which has been heralded by many, in our judgment, has been oversold. There are only modest gains for the Nation's grain producers. In particular, the European contribution toward reducing export subsidies in the world in 5 years is going to amount to something like the equivalent of a bad wheat crop in Italy, 8 million tons of grain. The U.S. contribution is going to be similar to that. Other nations are making no contribution at all.

It is in that regard that we look at GATT implementing legislation with some major goals. One is to conform the export enhancement program that our Government has operated since 1985 to the new world order, as established by the Uruguay Round. That would be, among other things, to refocus the program so that it can be used for trade expansion and market development; remove the targeting requirement that has been burdening the program for quite a number of years; and assure that all the U.S. moneys allowed to be spent and the volumes allowed to be exported by subsidies under the GATT accord are programmed.

We have in our dispute with Canada an ITC investigation which will mature with recommendations in early July. We are hopeful this will lead to some strong actions to promote fair trade in North America.

Finally, I want to draw the committee's attention to a serious concern we have with regard to the export enhancement program. The appropriations committees in the House and in the Senate have allotted \$850 million for the EEP program in fiscal 1985. Currently in fiscal 1984 with 3 months remaining, we are almost at that level already. Our projection is that by the end of this fiscal year, we will have spent over \$1.1 billion in export enhancement.

That means that by approximately this time next year, we will be out of funds for EEP regardless of whether or not the GATT implementation date is January or July of next year. The funding is going to run out unless something is done. It is a major concern that we have, and we want to bring it to the committee's attention. I would like to include in the record a chart that we have made which projects prospective EEP performance in fiscal 1995 against that of the last two seasons.

Thank you very much, Mr. Chairman. I would be pleased at the appropriate time to answer any questions from you and the subcommittee members. Thank you.

[The prepared statement of Mr. Schwensen appears at the conclusion of the hearing.]

Mr. SARPALIUS. Next, Mr. Bor.

STATEMENT OF ROBERT M. BOR, COUNSEL, U.S. RICE PRODUCERS' GROUP

Mr. BOR. Mr. Chairman and members of the subcommittee, my name is Bob Bor. I am the Washington counsel for the U.S. Rice Producers' Group. It is a pleasure to be here before you today and present testimony on behalf of the group.

The Rice Producers' Group is a national organization representing rice producers in the principal rice producing States of Arkansas, California, Louisiana, Mississippi, and Texas.

I would like to begin my testimony by stating that, in general, the Rice Producers' Group supports continuation of the current program. It has done well for the entire rice industry and for the national economy, and with the Uruguay Round agreements in place, program costs should decrease over the next 5 years to meet with any budget constraints.

The program is sustaining rice producers in this country. Rice production is a high-cost crop because it is an irrigated crop that depends on costly supplies of water, on electricity, and gas to operate the pumps to move the water where needed and, as a result, producer margins are very limited. The producers understand the need for them to reduce costs and are investing large sums of their own money to this end so that they can become even more efficient than they are today, but they need the program as a transition.

It is now 9 years after enactment of the marketing loan program that set new directions for the rice industry. However, since that time, the targets have been reduced by 10 percent. The payments have been reduced by some 15 percent. In addition, as yields have been increased, deficiency payments are still based upon historic and not current yields. During the same period production costs have been increased.

A report just released by the Economic Research Service shows a general increase in farm expenses from 1988 to 1992. Taking all economic costs into consideration, ERS estimates that the returns to management and risk in 1992 was only \$7.29 an acre. Small wonder that in the current year, 94 percent of the total rice base in the United States is enrolled in the program, a higher percent than for any other crop.

Rice production has benefited the national economy in many different foreign ways. As a result of the program, domestic use has been increasing. Rice has found itself on the table in many different forms, and in many different foods, and even in the form of beer. It has also been exported in many different foreign markets, and in the current marketing year, exports have been expanded and are expected to total some 81 million.

U.S. produced rice has meant jobs in the United States, jobs not only in the rice industry but in all the supporting industries. A recent positive development has been the results of the Uruguay Round, which will open new markets for exports of United States rice and we are supportive of the Uruguay Round implementing legislation.

It is our view, as producer revenues will increase as a result of the Uruguay Round, it should cause a substantial decline in deficiency payments. It is for that reason we see little sense in penalizing agriculture for the Uruguay Round and we are pleased that the administration has just announced it is no longer asking agriculture to pay some \$3 billion to this end.

There are other pressures on the rice industry. For example, GAO has just released a report commissioned by Mr. Armev that is highly critical of the rice program, and we are pleased that the subcommittee has plans to hold hearings on this in the very near future.

But what will happen if the rice program is eliminated? A recent report of FAPRI says that rice average would be reduced by 25 per-

cent, southern plantings alone should fall by more than 50 percent from the baselines, rice exports should fall by 30 to 40 percent, and other countries will pick up the share that we have now in the world market.

We are of the view that this report understates the economic impact on the United States if the program is lost. What we are really saying is we need your help to stay in business. The survival of the rice industry benefits America, and with the Uruguay Round in place, program costs should be reduced if the program remains intact without change as recommended.

The Rice Producers' Group is opposed to the proposal advocated by the Iowa Farm Bureau and others to supplant the current program with an insurance program based on a percentage of the average market price during the past period. Domestic prices are determined by world prices, since the United States is not the dominant exporter of rice. Because of this factor and the high cost of production, the rice industry could not survive on a plan such as the one proposed by the Iowa Farm Bureau.

But the rice industry is not resting on its laurels. It is working hard on research efforts to reduce the cost of inputs. Five major rice growing States are dedicating in excess of \$10 million annually in rice research. Most of this is coming directly from the lower check-off programs.

Agricultural producers have traditionally been strong conservationists. In particular, rice is a crop that is friendly and compatible to the environment. Rice is generally grown in low-lying areas adjacent to some of our most productive estuaries where the rice industry has coexisted with the seafood industry for years.

In addition, the U.S. rice industry provides annually over 2 million acres of habitat for migratory waterfowl and other wildlife, and to add to these efforts, the U.S. rice industry has just organized a national waterfowl habitat program to be carried out with the assistance of the National Fish and Wildlife Foundation and the Fish and Wildlife Service.

Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to testify. I would be pleased to respond to any questions.

[The prepared statement of Mr. Bor appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Mr. Bor. We look forward to—I think we have scheduled that hearing for the latter part of July. If Congressman Armev had his way, rice would not be the only farm program he would eliminate.

Let me ask, if each of you could give me your opinion on what impact you think the commodities that you represent would be affected if 15 percent of the CRP land came back into production.

Mr. YODER. From soybean's perspective, definitely we would see some of that land go into soybean acres. We probably would not see enough of an increase to make a large difference in price. The price would be more affected, I think, by the reduction of our ability to subsidize vegetable oil exports. I think that will have a far greater effect than the CRP acreage coming back.

Mr. SARPALIUS. Mr. Bor.

Mr. BOR. Mr. Chairman, rice is not one of the commodities that has participated in any great extent in the CRP, so I do not think it would have a great impact on the program or on rice producers' revenues.

Mr. SARPALIUS. Mr. Brumfield.

Mr. BRUMFIELD. We think in cotton we could see 200,000 to 250,000 acres of old base come back in, probably in Texas. It would probably be dryland production. I don't think it would have a great impact on cotton.

Mr. SARPALIUS. Mr. Schwensen.

Mr. SCHWENSEN. I would imagine, Mr. Chairman, that most of that acreage, that 50 percent that you are speaking of, would be in wheat. I think if there is an opportunity for some of that land to get into something like the 0/85 program, we won't see a remarkable impact on our domestic program.

It will be wheat acreage finding its way back into production. However, I still think in the future that weather is going to have a lot to do with what our total output is than the number of CRP acres in production.

Mr. SARPALIUS. Mr. Brumfield, you mentioned in your testimony about cotton production in China and in Russia. In Russia from what I understand, they have dumped a lot of their cotton onto the markets. Their production of cotton at this time is low. Their processing of cotton, many of the plants have closed down. You mentioned in your testimony in China where they had a high percent of diseases, they had a bad year, cotton in our country has been doing pretty good.

But China has become very aggressive in trying to capture more cotton markets. What do you foresee, as we look into the future, what other protections or what do you foresee as the future for cotton with those changes occurring in China and in Russia?

Mr. BRUMFIELD. Mr. Chairman, as you certainly know, our four major components in the production area of cotton are the Asian central states, the old states of Russia that in their production area, Uzbekistan and also the crops around that area, also the Chinese production, as you mentioned, also the Indian production and the Pakistani production.

It just so happens that of all those four which are major cotton producers, none of them happen to be the paragon of free economy, or they are all very managed economies. Their cotton production finds its way, in the case of Pakistan and in the case of Russia, at this particular time, that excess production certainly finds its way into the international market in a very disruptive fashion.

At this time last year, the Pakistanis were extremely disruptive in the international markets, not only with raw cotton but with finished product. They did have a semidisaster in their production of 1993, which has restricted them somewhat at this particular time.

The Chinese production has been curtailed. They have had some problems. The Russians, the Uzbeks and centralization states have been more successful in their production, but as you mentioned, they have completely lost their old traditional customers of Eastern Europe and the Russian textile industry has been very curtailed.

So we do recognize that we will constantly have a problem with those foreign productions being in the international market. Our

main problem is, we do not have access into those markets with our finished products. We do not have access into the Indian market. We do not have access into the Pakistani market. There is no Russian market to have access to at this particular time.

And it is almost impossible, or you can virtually say we have no access to the Chinese market. That is where we will be impacted.

Mr. SARPALIUS. And none of those countries are affected by the GATT agreement.

Mr. BRUMFIELD. None of them are affected by the GATT agreement, that is correct.

Mr. SARPALIUS. In your opinion, how does EEP help you in competing with those countries?

Mr. BRUMFIELD. Well, it helps us continue to be competitive at times when there is a need for that. At this particular time, our cotton and the cotton of centralization states are probably the only cotton that is actually available at this particular time, but that will pass. In our 1995 production come-on stream, we hear there is increased acreage planted in Pakistan, also India, and there is increased effort to get production in Red China. It will just depend on the growing season and the problems that they have as to how competitive we will certainly need to be.

However, with the use of EEP and any promotion programs, it lets you continue to have a prevalence in the world market. It lets your competitors know you are going to be there through the good and the bad. And that is the real benefit of it. It lets us have that prevalence. It lets us sell our products during times of shortage or surplus.

Mr. SARPALIUS. The gentleman from Kansas.

Mr. GLICKMAN. Thank you, Mr. Chairman.

First, I would like to recognize my friend and former leader of the staff of this committee, Mr. Bor, who for I don't know how many years kept us on the straight and narrow.

How many years was it, Bob?

Mr. BOR. A total of 10 years. Some of the best of my life, I might say.

Mr. GLICKMAN. Anyway, you kept us out of trouble many times. Let me first of all ask you, Carl, I agree that EEP must be redefined to focus on foreign market development. And Mr. Sarpalius has offered a bill to do that, which I am going to sponsor or have sponsored, I don't know if it has been dropped in yet, but I intend to sponsor it. But let me ask you something, because people are going to ask us about this.

EEP originally was to respond to unfair trade practices. And we are going to have to redefine that, I suppose, in the GATT implementing legislation. And in your statement, you say now that EEP is no longer needed as a trade policy tool, there is a vital role for EEP in developing foreign markets and expanding exports.

My question is: Isn't that a trade policy tool? What I am trying to figure out is, in explaining what EEP is for now in this, "modern world," really its purpose is the same, isn't it, and that is to expand U.S. market share. What I am trying to figure out is what is different about it.

The reason for that is because as we fight off budget cuts of EEP, we have to have a pretty good rationale for why we are using it

in the modern world. Trade policy isn't the reason why we are doing it.

Mr. SCHWENSEN. It was used originally to coerce the European Community, to complete world trade negotiations and establish a new regime of export behavior. That has been accomplished. The GATT accord prescribes a mandate that this country and the European Community will follow in reducing their export subsidies.

GATT does not say subsidy programs globally should be targeted. It does not say subsidies should be used only to fight unfair trade practices. Subsidies are legitimized. Our competitors either openly or discretely are going to be using export subsidies, and that is why we think the program should conform to the new state of world order and be used at prescribed levels to keep us in the market and to enhance our marketing opportunities.

Mr. GLICKMAN. And to do that, we will need to put some clarifying language in the GATT implementing legislation?

Mr. SCHWENSEN. Yes, Mr. Glickman.

Mr. GLICKMAN. Let me just ask you a final question, each one of you. If you were in our shoes, what recommendations would you have in terms of the 1995 farm bill in terms of commodity programs now? Like in a couple of sentences, especially as it affects each one of your commodities. What changes would you like to see in the soybean program, oilseeds program?

Mr. Yoder.

Mr. YODER. Naturally our situation is somewhat different because we don't have a target price or a deficiency payment. I think the fact that we have within basically a free-market-oriented commodity, we would like the ability to continue to compete in the world market with our exports, and of course EEP is very important in that for us as a commodity.

So our No. 1 effort would be to allow us to continue to export in competition with other subsidized countries around the world.

Mr. GLICKMAN. But you are not looking to be a supported commodity like the others that are represented here?

Mr. YODER. I don't think it would make any difference if we chose to do that, I don't think it would be in the cards. However, I will say that if our ability to sell in the world market is lessened, that more soybean acreage will shift over to the protection of cotton, wheat, rice, and corn. So it will have a major effect on the cost of those commodity prices if we don't get some relief.

Mr. GLICKMAN. Mr. Bor.

Mr. BOR. Mr. Glickman, the Rice Producers' Group would like to see the structure of the current program remain intact, a combination of target prices and marketing loan program.

And I say that because prices are determined not by the situation here in the United States, but rather by the prices in which Thailand, the major exporter in the world, sells its rice into the world markets.

And given that circumstance, it is not possible for the rice producers, many rice producers, to survive with the cost of production as high as it is. And cost is high largely because rice is an irrigated crop and depends upon costly supplies of water, electricity, and gas to operate the pumps.

Mr. GLICKMAN. Mr. Brumfield.

Mr. BRUMFIELD. Mr. Glickman, we would like very much to see the cotton title remain very much the same as it is now. We think it has demonstrated by the growth in our industry, it has been very good for our industry for the producer all the way up through the textile manufacturer. It has allowed us to be very competitive in our exports, not only of raw cotton but in value-added finished products. We think it has been a success and we would like very much to see it continue.

I would like to clarify our position on EEP. While we have supported EEP and we think it has been very important for our commodities, cotton does not actually market under EEP. We have the marketing loan which allows us to do very much of the same thing. So, Mr. Chairman, that was concerning my reference to EEP a few minutes ago.

Mr. GLICKMAN. Mr. Schwensen.

Mr. SCHWENSEN. Our response would simply be, stay the course. We like the current programs, we like the market orientation. We think that schemes to move toward targeting of benefits, means testing and the like should be avoided. Likewise, we think that the committee should avoid pressure to accelerate a decline in farm benefits, whether it be through export programs or through domestic programs.

Mr. GLICKMAN. Let me ask you this. Given the fact that the budget will still be a dominating factor in this farm policy debate next year, what are the worst choice options for you in terms of farm policy changes?

Mr. SCHWENSEN. Mr. Glickman, the worst choices would be an expansion of nonpayment acreage, high ARP's or the elimination of marketing loan provisions.

Mr. BRUMFIELD. I would have to certainly say I agree with both of those provisions. It would be very damaging to lose the marketing loan for cotton and we think it would be a very crippling blow. It would return us back to some type of program we had pre-1985, in which we were experiencing no growth in our industry, and not a great deal of profitability.

Mr. GLICKMAN. I can assume you don't want to see us get back into the payment limitation area. That would not be good, right?

Mr. BRUMFIELD. That is right.

Mr. BOR. I think both Mr. Brumfield and I and Mr. Schwensen have the same views on that issue. The worst choices would essentially be elimination of the protection of the program through elimination of target price and marketing loan aspects. And going to a kind of system that is—insurance system that has been proposed by some of the economists, by some people in the Iowa Farm Bureau, I think that would be tragic for the industry.

Mr. YODER. For soybeans to leave us at the mercy of the world, without a deficiency price and remove our ability to compete against other subsidized vegetable oils, it would have absolutely no reduction under current GATT language. It would probably be the worst possible thing that could happen to us.

Mr. GLICKMAN. Thank you very much, Mr. Chairman.

I thank the witnesses.

Mr. SARPALIUS. You served as chairman of this subcommittee when we marked this bill up in the last farm bill. You have done

an excellent job. I guess we might as well go ahead and mark up the same bill.

The gentleman from California.

Mr. DOOLEY. Thank you, Mr. Chairman. I am sorry I missed some of your testimony. I had a chance to read it, though. I just wanted to say to Mr. Yoder, I really did appreciate the comment that you made, that profitability in your industry is a function of reducing cost just as well as increasing demand. And I think that is what we as an industry have to keep in mind too, is that any time we can find the technology or the production processes which can reduce a per unit cost of production is every bit as good, in fact, in my perspective, is more productive because it does make us more competitive in the international marketplace.

I have spent a lot of time talking about this, but you folks have all followed what has happened in just the last 2 years. We are spending a lot of time talking about a 1995 farm bill, but we are basically facing a mini farm bill every year. I mean, last year we were faced, when we had the budget deal, with a choice of increased flex acres, and means testing has now surfaced with the welfare reform proposal.

I am a farmer and I am getting to the point of thinking, where does the program deteriorate to the point that the costs of participation are such that I am better off not even having a program out there?

It might not be in the 1995 farm bill, but it might be in the 1996 or 1997, that we are going to be in a place where the marginal costs of participation just don't justify continued participation in the farm program. And that is where we have to think of some ways to transition to a program that does give added incentives in the market expansion, that doesn't rely so much on some of the supply management tools. I don't even say the deficiency payment structure, because when I as a cotton grower, participate in the program, I am doing very little to expand the market opportunity for me and my industry in the long term.

It is sustaining me over the shorter period of time in terms of my income, which, is certainly a need, but it has in some respects—a negative impact too on the aggressive adoption of new technology.

We still focus so much on some of the old ways of doing things, that we have a high level of comfort with. I am not sure what that is doing for the farmer 5 or 10 years down the road.

Mr. Bor, you made the comment, about some of these risk management proposals and specifically what the Iowa group has come up with. And it wasn't just the Farm Bureau that supports it, I was surprised, the NFO was a signatory to it also. I think a lot of producers are realizing that it is not simply the income, it is the variability that creates the risk and creates the problems that you have over the long term.

If we can get a program that can give us a way to deal with that fluctuation and gives the degree of certainty for farmers.

I would just like to hear some comments on that risk management idea that has been out there, it is not new, I have talked a lot about it, but is there an alternative for that, that even works in part with a marketing loan concept?

Mr. Yoder.

Mr. YODER. I think basically we are kind of already there as a commodity. We are kind of outside of the tent already of protection. It would be kind of a strange situation if the one commodity that the U.S. Government has made money on the last several years who had the most to gain from a good free-trade agreement, ended up being the one who lost the most and was still being asked to participate to help balance the budget. It would be kind of a strange situation for that to happen.

I think we as an industry have been forced because of not having protection like other commodities to be very efficient. And that has been a high incentive for us, because the only way we have to compete in the world market is simply to be as efficient as we possibly can.

That is not always all bad. There are some good things that come out of being forced to be competitive. However, in anything, there is a limit to that. And I think we have reached that limit.

Mr. DOOLEY. Mr. Bor, your concerns with risk management I guess would center around the fact that we wouldn't be able to maintain a price that would provide for adequate income?

Mr. BOR. Mr. Dooley, in connection with other crops, the price, market price in the United States is determined by factors that relate to U.S. production. And in the case of rice, that is not the case. The price is dependent, rather, upon world prices. It is dependent upon essentially what price Thailand gets in the world market, which happens to be unfortunately lower than our cost of production.

We have a free market here. We don't have any barriers on imports of rice, and imports can come in freely. So if we were to raise our price because we need a higher price to survive, all it would do would be to attract imports, cheap imports that would supplant domestically produced rice.

So if we want rice to be sold even in the domestic market, then it has to seek the same level at which other countries are selling their rice in the world market. What we are faced with really is pressure to reduce production expenses. And we recognize that we have to exert more and more efforts to that end.

And we are expending a significant amount of research dollars to be able to reduce the cost of pesticides, to become more efficient in the production of rice, so that we can bring the costs of production down. But because of this unique factor, if we were forced to depend upon foreign prices to survive, most of the rice industry here couldn't make it. We would have a revolution.

When I say a revolution, I mean a revolution in the sense that many folks would be going out of production, and even today, there are large areas in Texas where the costs of production have been too high for a variety of reasons, and production has been decreasing rather significantly over the course of the last 10 to 15 years. Texas used to be something like the second ranking State in rice production. It is no longer that. Its production is greatly reduced.

Mr. DOOLEY. I guess there is a reason why that has happened, though. It is because other parts of the country have had a competitive advantage to some degree, I would guess. And even in the case of the California rice industry, we are selling a lot of rice or

are beginning to sell more and more rice to Japan. So there is a factor there.

Aren't we competitive in some sectors?

Mr. BOR. Well, we have been very fortunate in California this year because there was a crop failure in Japan, and Japan had to go out on the world market and they bought a significant amount of rice from California, which had the impact of raising the price very significantly.

However, whenever you have a crop failure in a country, then the next year the country makes up for that crop failure by over-producing, and we see that situation now coming up in Japan.

And what we see probably is that Japan will no longer be buying rice on the world markets, at least until it is forced to under the Uruguay Round. And therefore, as California has expanded production to take account of an open market, perhaps, a good market in Japan, it may find that in the next year the market just isn't there.

So we might see that the price could well fall. But in the long run over the next 10 years, the GATT agreement produces substantial benefits to rice producers, particularly to producers of medium grain rice who sell rice to Japan and to Korea, and hopefully will have a more open market in Taiwan and some of the other markets in that area.

Mr. DOOLEY. Mr. Brumfield, you have some terrific folks, and I am well aware of your positions, and I appreciate your testimony.

Mr. YODER. Mr. Dooley, if I might add, I am proud of the efficiency that American agriculture has had for years and years. I think we have been forced—and forced ourselves—to become efficient. I would tend to think we may be the most efficient segment of U.S. society today.

And if it is good for us to cut to become more efficient, maybe some of the rest of the folks in this country ought to look at what agriculture has done.

Mr. DOOLEY. I would concur with that. I am a great admirer of your industry as I am of the cotton industry. The innovative approach to develop new markets and new market opportunities, with some of the new products, soy-based ink, some of the terrific things happening there—that is my concern, if you get an artificial price out there, do you create the financial incentives to move into some of these sectors and create tremendous market opportunities down the road?

How do you put in place the incentives from a policy perspective that encourages this innovation and doesn't basically create a stagnant industry or a stagnant production orientation?

Mr. BOR. Mr. Dooley, if I may respond to some of that comment, in the case of the rice industry, the rice industry has really been a very progressive industry, because the domestic utilization of rice has been increasing. The rice industry has done a lot to expand markets for rice, not merely overseas, but here in the United States.

When you sit down at the table, you see rice in many more forms than you ever saw previously. Breakfast cereals, for example, it is mixed in with many other different products, and it is used significantly in the production of beer. And I think that you will see that

if you are looking for a progressive industry, that the rice industry is up there amongst the best.

Mr. DOOLEY. I would concur with that, and that is what happens when you identify a crop. If I was a rice grower, I would have named it No. 1 right off the top.

Mr. SARPALIUS. Let me thank all of you for your testimony. It was excellent. We look forward to working with you throughout this process.

Mr. Yoder, I look forward to our meeting Thursday with the Secretary. I appreciate it. Thank you very much.

Our next panel will be Mr. William Kubecka, National Grain Sorghum Producers; Mr. Gerald Lacey, National Barley Association; and Mr. David Senter, with the American Corn Growers.

STATEMENT OF WILLIAM KUBECKA, VICE PRESIDENT FOR LEGISLATION, NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. KUBECKA. It is my pleasure to appear before you today to discuss the outlook for grain sorghum producers and the dynamic factors that will affect their well-being in the years to come.

My name is Bill Kubecka and I am a veterinarian by trade. I grew up on a family farm, and like they say, you can take the farm out of the boy. Our operation—I say our because my wife and I are both veterinarians, we have 200 acres of rice, 1,200 acres of grain sorghum, and 750 acres of cotton. Our production is located around Palacios, Texas.

I speak from experience when I say that grain sorghum producers appreciate all that you, Mr. Chairman, and the members of the subcommittee are doing to promote the interests in U.S. agriculture. During the next 5 years, U.S. producers will face more changes than they have at perhaps any time in production agriculture. Leading the way to change will be the North American Free-Trade Agreement in the eventual enactment of the General Agreement on Tariffs and Trade, the Uruguay Round.

While the American farmer is the first and foremost the caretaker of his land, and I might add a darn good one at that, we can provide him with even more options to environmental improvements. After all, contrary to what some individuals and groups may think, the American farmer is genuinely interested in taking the best care he can afford of his farm.

Opportunities that I will submit to the subcommittee require a farm bill that: Will enable farmers to truly plant for the market; will implement a uniform feed grains program; and will enhance environmental practices.

Mr. Chairman, the National Grain Sorghum Producers have developed a 1995 farm bill proposal that accomplishes each of these goals and saves the Government money. With the inevitable change before us, we have appropriately constructed a proposal for 1995 entitled the farm transition bill. If farmers are given the opportunity to produce for the market, deficiency payments will be reduced. Market demand will dictate which crops are the most profitable to produce.

Crops that are underplanted will increase in price and because of the smaller supply, the probability of triggering loan deficiency payments and marketing loans will be reduced.

New market access provided by NAFTA and GATT will challenge exporters to seek and hold new customers. This program would assure a steady and constant supply of commodities to meet new market opportunities.

Universities and their experiment stations have conducted extensive studies and the results have proven that, pound for pound, sorghum and corn have equal feed values. Therefore, using bushel weights to calculate target price would be more applicable.

If this plan is adopted, the loan rate and target price for sorghum would be determined using the same formula, and here I say same formula that barley loan and target price are calculated with.

USDA indirectly sets the base for cash markets by establishing a wheat and feed grain loan and target price. Buyers adopt this same spread when offering cash price bids to producers. These prices are then reported to the USDA and ASES to establish a posted county price utilizing this distorted spread as part of the equation. Developing a uniform and target price for feed grains would eliminate this distortion.

An analysis by Texas A&M University concluded this program will reduce Government payments by \$41 to \$72 million annually, depending on the actual cash relationship between the feed grains.

The Secretary of Agriculture will have the option to establish an acreage reduction or a diverted acreage program if needed. This program will provide producers the option to interchange program crops and nonprogram crops, including alfalfa on an established program crop acreage bases. Cross-compliance between crops would be eliminated. A producer would be allowed to plant any program crop or agricultural commodity, except fruits and vegetables, on any base while maintaining his base history. This program would parallel the current corn sorghum option where producers receive deficiency payments on historical crop base.

Last summer, agricultural groups worked hard to help ensure the passage of NAFTA. We also have been supportive of opening new markets to the GATT, as long as the agreement is not implemented at our expense. Farmers have always said they prefer to get their paycheck from the marketplace and not from the mailbox.

If we gear our farm program to allow farm inventories to take advantage of the new market opportunities and put forth their best possible effort in implementing environmental practices while providing the consumer with the lowest price, safest food supply in the world, I don't think the taxpayer or our adversaries can justifiably object.

Yet to be seen is whether NAFTA and GATT will open the new markets we hope for. As we witnessed this summer, there appears to be wrinkles to be ironed out. The importation of Canadian wheat and barley has been a hot issue and there will be undoubtedly others.

Until this global trading system begins to settle down, the safety net for U.S. farmers is certainly reasonable. Additional new domestic market development opportunities will be created. The potential

exists for value added for our feed grains to an expanded livestock production and red meat exportation.

The year 2000 may bring about a completely new concept in farm policy. To get to that point, NGSP recommends that a farm bill proposal that will provide a safety net for farmers and will ensure a safe, dependable supply of food and fiber for the American consumer during this transition period.

Allowing farm inventories to rotate and interchange crops will be good for the environment and for conservation. Conservation plans will be easier to follow. Residue requirements will be more achievable. Fewer pesticides and less fertilizer will be used as flexibility to rotate crop patterns is provided.

This proposal also meets the reorganization streamlining and paper reduction goals of USDA. County offices will be more efficient. Less time will be needed for program sign-up and compliance requirement checks. Fewer forms will not be needed for producers who have multiple bases on their farm. Producers will be able to combine multiple base acres and will not be affected if they overplant or underplant a specific commodity base. ASCS will only make one tolerance check—on the total base acres within the farm.

Mr. Chairman, using this type of program to the year 2000 is a win-win situation for taxpayers, consumers, exporters, commodity processors, farmers, and the environment.

Thank you.

[The prepared statement of Mr. Kubecka appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you. Next, Mr. Lacey.

STATEMENT OF GERALD LACEY, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. LACEY. Mr. Chairman, I am Gerald Lacey, a Minnesota farmer from the Red River Valley and president of the National Barley Growers Association. Our organization represents the six northern tier States of Minnesota, North Dakota, Montana, Oregon, Washington, and Idaho. Those States produce approximately 85 percent of the barley raised in the United States.

We are pleased your subcommittee has raised the curtain on the 1995 farm bill by holding this hearing on the economic outlook for U.S. commodities. NBGA is sorting through the various options which are surfacing from a variety of origins and will be working hard toward a position paper or papers during the remainder of the summer. It is early in the process, but we can share with you today some of our general concerns and some of those objectives.

Currently, our greatest worry is the greatly accelerated flow of Canadian barley entering our market. The United States-Canadian Trade Agreement was poorly negotiated in terms of free trade in barley.

In order to acquire a license for U.S. barley to cross the border north into Canada, the end-user has to prove that there is no Canadian barley stocks available to fill his needs. For Canadian barley to move south, no license is required, and all that is necessary to make the sale is to undercut the United States market price and wave as it goes through the border.

Given the Canadian single-desk marketing system, assisted by a significant transportation subsidy, such predatory pricing is easily possible. As a result, the unrestrained flow of Canadian barley into the United States is equal to approximately 14 percent of our annual production. The effect has been to severely impact the U.S. farm program for barley.

The added pressure of these additional stocks has driven down farmgate prices by an estimated 22 cents a bushel, increasing the budget exposure for deficiency payments. It is projected that an additional \$67 million in barley deficiency payments will have to be paid in this marketing year for 1993-1994.

For the first time, ever, the U.S. will be a net importer of barley with exports of approximately 63 million bushels and imports of 65 million bushels.

We have placed considerable faith in the article 28 action, initiated by the United States in response to the interference with United States farm programs caused by the Canadian imports. Now, however, we are told that there is resistance in the House Ways and Means and the Senate Finance Committee to the inclusion of authority for article 28 sanctions in the GATT implementation legislation.

To the extent the House Agriculture Committee has jurisdiction over the elements of the GATT implementation language, we earnestly solicit your support for authority of the U.S. Government to impose tariffs and quotas under article 28. It is barley's only recourse to this flood of Canadian barley exports.

Turning to the farm bill debate, barley, along with the other commodities, is trapped in a situation where budget considerations are steadily reducing the amount of money available to conduct a meaningful program, while at the same time production costs are edging up. Particularly discouraging are the escalating costs induced by mandated tillage practices, environmental permits, and taxes on chemicals and fertilizer.

Those requirements must be met without compensation, and with the erosion of program benefits, the possibility of profitable farming under the present system is fading away. We have some troops out there that cannot make it under the present course. We need some new ideas as we approach this new farm bill. Maybe some investment credit on conservation equipment or maybe some food safety costs passed on to consumers instead of being paid by the producer.

There is no shortage of advice or concepts. The grain trade has a tendency to urge us to get rid of EEP, bring CRP back into production and place our confidence in a world market freed up by GATT. We would certainly hate to use some of this highly erodible CRP in order to survive.

The scholarly economists often advise us to become more efficient so we can compete. Those suggestions have limited appeal to barley growers, but there are other tentative plans which attract our attention. Conversion of EEP financing and deficiency payments to direct payments to farmers has a seductive ring to it, but it does not have answers as to how we would fare in an export market dominated over the next 6 years by the European Union and their restitutions.

GATT was negotiated with the EEP in mind. The so-called Iowa plan attracted early attention with its income assurances decoupled from program compliance, but there is a deep-seated resistance by the farmers to being relegated to a semiwelfare status.

At this point in time, there are no easy solutions in sight. If that is the case, if no magic formula can be devised, there still remains the possibility that the program on the books now could be refitted and recalibrated to see us through until the end of the GATT phase-in.

Some kind words need to be said for the program as it was. Its presence has been institutionalized into land values, rural financial services and the entire industry of transportation, input supply and marketing infrastructure for agriculture. Its successor, if that is to be, will have to be in excellent form to see us through the next 40 years nearly as well.

Having praised the program, I hasten to add that barley has not fared well under its provisions when compared with other grains. In the early years of the farm programs, barley was badly undervalued in terms of feed characteristics. This, of course, was reflected in relatively low loan rates and target prices. Subsequent research has greatly improved all of that, and we hope that that can be rectified as we go into the 1995 farm bill.

I thank you very much.

[The prepared statement of Mr. Lacey appears at the conclusion of the hearing.]

Mr. SARPALIUS. Next, Mr. Senter.

STATEMENT OF DAVID SENTER, WASHINGTON DIRECTOR, AMERICAN CORN GROWERS ASSOCIATION, AND ALSO ON BEHALF OF THE TEXAS CORN GROWERS

Mr. SENTER. Thank you, Mr. Chairman.

I guess beginning the 1995 farm bill, that this committee and many of us, this is the first of many long days that we will spend going through this process. And we appreciate the opportunity to appear before you today to present the views of the American Corn Growers Association.

And also a long-time friend of yours, Carl King, president of the Texas Corn Growers and founder of the American Corn Growers Association, asked that I also represent the views of the Texas Corn Growers. Of course, you know where that is. It is headquartered in Dimmitt in your district. So, anyway, Mr. King sends his best to you, Mr. Chairman.

First, looking at the economic outlook for corn farmers, I guess, at the very least, it is a fragile economy. As you go around the country, many producers are one disaster away from losing their farms.

New rules and regulations and taxes in conservation compliance, environmental areas continue to increase our cost of production each year. Yearly increases in the prices of parts, machinery and inputs makes it very difficult and sometimes impossible to make the necessary capital investments that we need in our operations to make us more efficient as we continue to farm future years.

Government forecasts of higher farm income usually don't put money in farmers' pockets. We applaud Secretary Espy's decision

earlier this year to raise loan rates. A farmer can go to the bank with a loan rate and borrow money, but deficiency payments and other programs do little good until the money is deposited into your account. It is in doubt as to how much you are going to get, when you are going to get it, and so on.

Secretary Espy's decision put more money in farmers' pockets than even the best projections of GATT and NAFTA combined. All farmers have ever needed is a fair price in the marketplace for their production.

The ag budget will continue to get smaller. The American Corn Growers Association supports additional raises in the loan rate to reduce the target deficiency payments, and we believe that this will help save money and better operate the program.

Farm income is vital to the rural communities. Farm income makes a determination about whether you have Main Street stores and businesses closed or whether they are open and creating jobs for our young people or whether they go to the large cities for their jobs and futures.

The price of commodities for the next decade will be the key to the future of rural America. There are no rural economic development programs that can replace a fair price for a bushel of corn or wheat or the other commodities.

Trade has been a driving force of the agricultural debate for the past 20 years, and we always wonder who is the winners and the losers, and I think that debate has continued today over NAFTA and GATT.

The truth is, we had some officers of our association recently in Mexico, and they came back with some startling facts. We heard about the huge new marketplace in Mexico we were going to create for corn farmers. Mexico is currently producing 18 million metric tons of corn, most of it white corn, and they are consuming 15 million metric tons today. They have a surplus of 3 million metric tons. They are diverting much of their white corn to feeding livestock, and you know and I know a lot of that is going to end up back in the United States in the form of meat and other products.

We have major objections to the proposed GATT treaty, and we will oppose passage. We object to the mandated imports, to the loss of section 22.

And I won't go into all the details during this particular hearing, but recently Texas A&M came out with a study looking at GATT and projected that cotton, rice, and dairy are the big losers and very minimal gains for corn and wheat. We believe that these agreements are actually going to put at risk our own domestic market here in the United States, and for corn farmers the domestic market is our main marketplace that we provide corn to.

The GATT-mandated cuts in farm program spending will mean less dollars in farmers' pockets, and also this committee will have less say in writing farm legislation with the World Trade Organization having the final say.

Just quickly, a couple of other things.

We believe that the best potential that we have in this country for growth in corn markets may lay in the area of new uses, increased use for ethanol, new uses for starch products and biodegradable products, industrial uses, et cetera. There is a great po-

tential there with the pending EPA rule on oxygenated fuels for the Clean Air Act, could provide a new larger market for our corn products in this country.

Above all, the farm bill has to address farm income. We will judge this bill on the bottom line—farm income.

We believe the CRP has to be extended. It is interesting the budget shows no outlays for additional farm program spending, and they show no extensions of the contracts. Well, if those acres come back into corn we are going to pay a deficiency payment in program cost which is going to show up in budget outlays. The money would be better spent to extend those contracts and protect the conservation gains that we made.

And, also, we believe that we have to take another look at reserves, farmer-owned reserves. We have no strategic reserve in this country of corn at this time. The reserves have been emptied to keep corn prices lower. We should have a strategic food and feed reserve to take care of disasters when we have them in this country. We should take another look at how we use those reserves and what they are for.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. SARPALIUS. David, please give my best to Carl as well.

Mr. SENTER. I will do it.

Mr. SARPALIUS. Let me ask, in the study that you referred to at Texas A&M, am I wrong or am I right in that that study, didn't it refer to GATT in the worst-case scenario whereas the numbers that USDA uses in showing how corn and many of these crops would win under GATT is based on the best-case scenario? I am curious if you agree with that?

And if GATT is approved, wouldn't it probably fall somewhere in between those two studies?

Mr. SENTER. My understanding is that Texas A&M study, they used a selected group of farms in doing their research—larger farms, smaller farms, high plains, rolling plains—and they have different farms they collect data from. They based their estimates, my understanding, on what the trends and how they have looked at these Texas farms and what the impacts will be. There very well may be a different impact on Texas farmers than it might be on Illinois farmers, and so they looked at these farms within Texas.

USDA always looks at the best-case scenario when it fits their purpose. They always do. And you can look back. I have been here 15 years. And they always do that.

If they were opposed to GATT, they would have looked at the worst-case scenario. That is just how economists do things here. It very well could lay between the two, but the bottom line is it could lay between the two projections.

And those areas, those commodities are still losers under that scenario; and USDA, they are just projecting corn farmers to gain like 8 to 10 cents over 8 years, 1 penny a year, \$1 an acre or \$1.25, and that is the big gainers. So even the USDA and the FAPRI numbers they are looking at are—the big gainers are very minimal. And if they miss the mark we are in bigger trouble than we ought to be.

Mr. SARPALIUS. Dr. Kubecka, if you increase the target price loan rate on grain sorghum to be equal to corn, how can we achieve that through budget savings?

Mr. KUBECKA. It will increase the payments to the sorghum producers, but through the study that was done at Texas A&M University—not the same study you all were referring to earlier, but an agricultural sector model program that looks at all the different factors, you would have reduction in wheat because that is where the increase in production would go, would be wheat and some corn. And it would also raise the price—even the price out so that you don't have the extra cost to the other program crops.

Mr. SARPALIUS. Does the gentleman from California have any questions?

Mr. DOOLEY. Thank all of you for attending. I appreciate the work the grain sorghum people have done, that you alluded to, Dr. Kubecka, I think what you are proposing is interesting too. My concern is, though, when we have so many of our commodity prices, which really are a function of international market prices, shouldn't the target price be related to that world price or the international price?

Mr. KUBECKA. I guess what we are trying to accomplish—as a grain sorghum producer right now, we have done extensive—and I am also on the Texas check-off board, and we have done extensive studies and tests as far as the feed use efficiency between corn and milo.

What we are trying to do, and I am not speaking—I say I am speaking today for grain sorghum, but I have produced corn. My family produces corn. And what we are looking at—and many of the people on the board are dual, triple producers of different commodities. And what we are trying to do is to promote or get corn—excuse me, grain sorghum on par with corn so that people have flexibility. If nothing else, we are looking for flexibility.

And, right now, there is a study done—and I think you all have a copy of this—there is a study done in Missouri where actually people produce corn just because of the farm program benefits, and we just see a lot of additional benefits.

We have proven that grain sorghum can be and is equal to corn for feed use efficiency. And if we go ahead and put it on par with corn it is not going to happen instantaneously, but over a period of time things are going to level out. It should allow people to better utilize their farms.

You know, the 1985 farm bill was 10 years ago. Nothing stands still. I think if there is anything else that I want to make of this proposal from the grain sorghum producers, is that we need to start changing.

Someone on the earlier panel made the comment about we have to quit looking at the status quo. We have to start figuring out how to cut our costs rather than simply maintain that static price. Well, I am proposing that we maintain the price, but we need to relevel this thing. One way we are going to do this is by planting crops that are more attuned to what our conditions are. We are stuck with these bases.

Mr. DOOLEY. I appreciate that. What you basically have identified is an arbitrary advantage as a result of the farm program that

corn has over grain sorghum which creates an inequity. If you level that, address that issue, you would see more people making a market-based decision, a better market-based decision. They will move to sorghum.

Mr. LACEY, I am just curious. You are from Minnesota?

Mr. LACEY. Yes.

Mr. DOOLEY. Do you grow any sugar there?

Mr. LACEY. Yes, sugar beets.

Mr. DOOLEY. What do you think of the sugar program then? We have some people who are talking, instituting marketing allotments on sugar. What is your attitude on that?

Mr. LACEY. I am in the best sugar growing, the cheapest sugar growing area, and I belong to a closed co-op. If it wasn't for raising sugar beets I couldn't be here representing barley.

Mr. DOOLEY. What do you think of this whole idea, though, where there are some parts of the country, including Texas and California, that are strongly advocating that we put in place market allotments that could restrict the amount of sugar that you can grow in Minnesota? What is your attitude on that?

Mr. LACEY. It no doubt would be to their benefit because—

Mr. DOOLEY. What would it mean to you, though?

Mr. LACEY. To me, it restricts my options because I can grow sugar cheaper than anything else.

Mr. DOOLEY. That is precisely the point I am getting at.

Some of your comments are that you are still maintaining this pretty strong allegiance to the supply management approach, if I remember correctly, and what we are seeing happen in the Red River Valley is an increased level of sugar production because it has some competitive and cost production advantages.

Is it appropriate to put in place Government policies that impede the development of production and expansion of production in areas that have an inherent competitive advantage? And if you do accept that, why doesn't that play out in the production of corn and the production of cotton and some of these other sectors? Why shouldn't we be consistent?

Mr. LACEY. I think the place where we are not consistent is that the production of sugar in Minnesota is all under closed co-ops.

Mr. DOOLEY. They are not building any new co-ops?

Mr. LACEY. No, but they are owned by the producers, and thereby lays the difference.

We just introduced a new corn processing plant that is being located at this very time—\$245 million processing plant, and our sugar co-ops are backing that venture. They knocked the door down to sign up because that area of the country realizes that by banding together in closed co-ops they can produce the product, the quality product, and share in the revenues because they get it ready for the table, ready for the consumer.

And I think we are going to be doing a whole lot more of that, but we still have to address the bulk commodity exports because that is part of our survival. The bulk commodity products are still a strong second to anything else that we export, right after transportation equipment. So we have to be able to compete with the rest of the world. And, as far as I am concerned, in order to do that, we have to reduce our input costs. And in order to do that

somebody besides the producer has to start accepting some of these Government-imposed costs.

I think it sounds like a good idea to have an environmental project. We have to attach some of the cost of that project to the consumer rather than to the producer or else change our marketing system.

Mr. DOOLEY. And I appreciate those comments. I am a cooperative member myself.

Mr. SARPALIUS. Mr. Lacey, let me say I understand your frustration with the Canadians. I have testified before the ITC on your behalf, and I will continue to help you as much as I can.

Mr. LACEY. Thank you very much.

Mr. SARPALIUS. It is not fair what is happening to you as well as to the wheat producers in this country.

Any other questions?

[No response.]

Mr. SARPALIUS. Let me thank the panel very much for your patience, for your testimony and I look forward to working with you.

The subcommittee stands adjourned.

[Whereupon, at 4:40 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF KEITH COLLINS
ACTING ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
THE HOUSE AGRICULTURE SUBCOMMITTEE ON
GENERAL FARM COMMODITIES

June 29, 1994

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to review the economic outlook for U.S. agriculture and its relationship to budget constraints, current and pending trade agreements, and the upcoming 1995 Farm Bill. Early in 1995, debate on new farm program legislation will begin in earnest. My goal today is to help provide the Subcommittee a backdrop on the state of the American agriculture as we enter into that discussion. I will review the general economic prospects for agriculture and the environmental, structural and policy context in which the 1995 Farm Bill will be written.

U.S. agriculture is very important to the overall economy just as it was in the early 1930's, when current farm commodity programs began. Although one-quarter of the population lived on farms in the 1930's and today about 2 percent lives on farms, the entire food and fiber system generates about \$950 billion per year in economic activity or 16 percent of Gross Domestic Product (GDP), employs one in seven people, and has a positive net trade balance of about \$18 billion per year.

Near-term Economic Context for 1995 Farm Bill

Overview: Farm bills have reflected external forces and the tenor of the times in which they were written. Economic conditions were particularly important during the 1981 and 1985 Farm Bill debates. For 1990, budget restraint, global subsidies, and flexibility were key issues of concern.

The economic outlook for U.S. agriculture in 1995 in large measure will be

influenced by how well farm production this year rebounds from the events of 1993. Flooding and drought reduced crop production and stocks, elevated farm prices, curtailed farm exports, and triggered disaster assistance. Last year's corn production was off by one-third and soybean production dropped by one-fifth. But, the drop in stocks was even more severe. The Department's current estimates indicate that stocks of corn will be down nearly 60 percent and soybean stocks will be down 45 percent on September 1, the end of the 1993/94 season, their lowest levels since the mid-1970's.

Reduced carryover of corn and soybeans has intensified concern about this year's corn and soybean crops. Preliminary figures from USDA's March survey indicate a 7-percent increase in corn plantings and 3-percent increase in soybean plantings from 1993 levels. USDA will update these acreage estimates tomorrow.

This year, the problem is not with too much rainfall, but rather with too little rainfall in certain areas combined with above normal temperatures. At this time, ample subsoil moisture and sufficient showers have kept major crops in generally good shape.

Despite the events of 1993, the economic situation for U.S. agriculture remains basically sound, with some concern focused on the flood and drought areas. Production shortfalls for many producers were cushioned by record yields and production for several major crops in 1992 and disaster payments and crop insurance indemnities, which together have totaled \$3.7 billion nationally.

Tight U.S. supplies and slow growth in key foreign countries will limit farm exports in the near term. For 1993/94, U.S. agricultural exports are expected to be \$42.5 billion, virtually unchanged from 1992/93. Export value and volume of wheat, coarse grains, and

oilseeds will be lower, while export value and volume of cotton, livestock, poultry, and horticultural products will increase in 1993/94.

Aggregate indicators of agricultural performance are expected to improve in 1994. Higher grain and cotton prices will reduce Commodity Credit Corporation (CCC) net outlays for FY 1994 to \$12 billion, down \$4 billion, despite the disaster associated outlays, and a further decline is expected for FY 1995. Farmers' cash receipts are expected to rise in 1994 and net farm income could rise sharply as inventories rebuild. Average farm operator household income from both farm and off-farm sources is forecast to increase, with farm sources accounting for 12-13 percent of the total. Debt and asset values are each expected to rise slightly, leaving the farm sector debt-to-asset ratio at 16 percent, about the same since 1989.

General Economy: Strong macroeconomic growth of 3-3.5 percent is expected for 1994 and 1995, which will strengthen food demand, and continued low inflation and energy prices will restrain production expenses. After 1995, the economy is expected to settle down to real GDP growth of 2.5-3.0 percent. Inflation is projected to average around 3.5 percent, with monetary policy geared to its containment. Interest rates are expected to rise slightly after 1995, but continue to remain below 1991 levels through the year 2000.

Economic conditions in the rural economy continue to improve. Rural employment grew 1.9 percent in 1993 and is expected to outpace urban job growth in 1994. Although the unemployment rate has declined in nonmetro places, falling to 5.8 percent at the end of 1993, the rural poverty rate remains high. The latest estimate indicates that nearly 17 percent of the rural population, 9.5 million people, live in poverty. This compares with

about 14 percent of the urban population.

Generally improving economic growth around the world will support further expansion in agricultural trade. Western Europe, particularly Germany, France, and Italy appear to be moving out of recession. In Japan, economic growth is less promising, but prospects of continued growth are favorable for other Pacific Rim countries. Eastern Europe appears poised to experience positive economic growth but problems of excessive inflation, negative economic growth and foreign debt continue in the nations of the Former Soviet Union (FSU).

The North American Free Trade Agreement (NAFTA) is expected to increase U.S. agricultural exports. Agricultural exports to Mexico during the first three months following implementation of NAFTA are up 15 percent. At the end of the 15-year transition period, NAFTA is expected to add about \$2.5 billion annually to U.S. agricultural exports.

Specific Commodities--Crops: This year marks the first time since the early 1980's that farmers did not have to idle acreage under the wheat, rice, and feed grains programs to be eligible for program payments and price support loans. Reduced acreage reduction programs (ARP's) and higher prices, especially for rice, corn, sorghum, and soybeans, caused farmers to increase plantings of program crops and soybeans by over 5 million acres in 1994. Soybean acreage is estimated up about 2 million acres, corn plantings up over 5 million acres, while wheat acreage down less than 1 million acres.

Total wheat use is projected at 2.4 billion bushels in 1994/95, down slightly from 1993/94, as both feed use and exports decline. Sluggish world demand and continued fierce competition among major wheat exporters underlie the forecast drop in wheat exports.

Lower feed grain prices are expected to reduce U.S. wheat imports, from a record 100 million bushels in 1993/94 to 80 million bushels, second only to last year's record. U.S. wheat stocks are expected to increase from 549 million bushels this June 1 to 607 million bushels on June 1, 1995. Wheat prices averaged \$3.20 per bushel last year compared to a forecast of \$2.75-\$3.35 for this season.

The one-third drop in corn production last year caused corn prices to increase from \$2.07 per bushel in 1992/93 to about \$2.55 in 1993/94. The stocks-to-use ratio is projected to drop from 25 percent last year to 11 percent by this September 1, the lowest since the mid-1970's. We now project a 1994 crop of 8.7 billion bushels, which would return carryover to a more normal 1.2-1.5 billion bushels. Increased corn supplies will likely reduce prices to \$2.10-\$2.50 per bushel and boost domestic use and exports in 1994/95. The currently proposed 30-percent renewable oxygenate mandate in reformulated gasoline would increase domestic use of corn. The expected increase in ethanol demand in the reformulated gasoline markets under the provisions of the proposed rule is equivalent to about 200-250 million bushels of corn.

Higher export demand, reflecting substantial imports by Japan, combined with tight supplies among the major exporters, including the U.S., has resulted in substantially higher rice prices this season. The U.S. season-average price for 1993/94 is expected to be about \$8.35 per hundredweight, compared to \$5.89 in 1992/93. In 1994/95, rice exports are expected to continue to be strong with Japan continuing to import rice. Rice prices, however, are expected to decline sharply as higher U.S. production leads to stock rebuilding.

The season-average farm price for soybeans is expected to be \$6.45 per bushel for

1993/94 compared with \$5.56 last year. Vegetable oil prices are constituting a much larger share of oilseed value this year with soybean oil prices expected to average nearly 28 cents per pound, up 30 percent from 1992/93. Larger soybean acreage and better yields are expected to rebuild stocks and lower prices in 1994/95. Soybean prices are currently forecast at \$5.35-\$6.45 per bushel.

The 1993/94 U.S. cotton crop totaled 16.2 million bales, virtually unchanged from 1992/93. Slightly larger supplies are supporting strong domestic use and an increase in exports from 5.2 million bales in 1992/93 to an estimated 7 million bales this season. In 1994/95, U.S. cotton production is expected to increase to 17.7 million bales. Both domestic use and exports are expected to remain strong. Continued economic growth will support higher domestic use. Early season U.S. exports will benefit from tight foreign stocks, but could face increased competition from recovering foreign production during the latter half of the season.

Livestock: Total U.S. livestock and poultry production is expected to increase 3-4 percent in 1994, following an increase of 1.4 percent in 1993. Beef production is expected to be up 4-5 percent; poultry, 5 percent; but pork, down slightly. During the first quarter beef production was up 7 percent causing cattle prices to drop to \$64 per cwt., down from over \$80 per cwt. last year. It appears that in recent weeks cattle prices have stabilized. Lower cattle prices combined with higher feed grain and soybean prices and lower slaughter prices will strain livestock profitability in 1994.

In 1995, total livestock and poultry production is expected to show another sizable gain, up 2-3 percent. Both beef and pork production could show increases of about 2

percent, while poultry production is forecast to be up 4-5 percent in 1995. These production increases are expected to continue to pressure livestock prices in 1995.

Milk production is expected to increase slightly in 1993/94 compared with a 2 percent gain in commercial use. The use of recombinant bovine somatotropin (bST) will help boost output per cow during 1994, with an average of 10 percent of the U.S. herd expected to be treated during the fourth quarter of 1994. CCC removals of dairy products are forecast to decline from 5.4 billion pounds milk equivalent, total solids basis, in 1992/93 to about 4.5 billion pounds this season. The all milk price is expected to average about \$13 per hundredweight in 1993/94, up from \$12.73 in 1992/93.

For 1994/95, milk production is forecast to outpace increases in domestic use, causing removals to increase and milk prices to decline. Milk production is anticipated to be up about 2 percent in 1994/95 as more producers use bST. We estimate that by the end of the 1994/95 marketing year, about one-quarter of the cows will be treated with bST. Commercial use is expected to increase by about 1 percent in 1994/95. CCC removals could increase to over 6 billion pounds and the all milk price is expected to average \$11.75-\$12.75 per hundredweight in 1994/95.

Fruits, Vegetables and Other Crops: Grower cash receipts from vegetables are forecast at \$11.9 billion for 1994, up 2.4 percent from 1993. Cash receipts for fruit and tree nuts are forecast at \$10.4 billion, up about 1 percent from 1993. The value of fruit and vegetable exports reached \$3.8 billion in FY 1993, up nearly 50 percent in 5 years. In FY 1994, the value of fruit and vegetables exports could exceed \$5 billion.

Farm Financial Situation: Despite the floods, net cash farm income is estimated to

have risen 8 percent in 1993. The increase reflects higher livestock receipts and government payments offsetting lower crop receipts and higher production expenses. In 1994, net cash income is expected to decline to about the average of the previous 4 years as higher cash receipts could offset increases in production expenses, but with higher prices and no major disasters, government payments could be down substantially. Net farm income, which accounts for inventory changes, is estimated to be down in 1993 as commodity inventories fell but would rebound in 1994 given a return to normal weather.

Average farm operator household income is estimated to have increased slightly in 1993 to \$40,700, with farming accounting for 14 percent of total income. The average income of farm operator households is expected to be \$40,000-\$43,000 in 1994 with no major change in the proportion coming from farming.

Farm real estate values averaged \$744 per acre as of January 1, 1994--6.4 percent above a year earlier, and the seventh consecutive increase since 1987. Values increased 7.7 percent in the Corn Belt and Northern Plains. Farm real estate assets are expected to increase 3-4 percent in 1994.

Farm Financial Stress: Data derived from USDA's annual Farm Costs and Returns Survey indicate a slow, steady improvement in farm financial conditions since the recovery began after the financial crisis of the mid-1980's. Between January 1, 1986, and January 1, 1993, the number of "vulnerable" farms fell from 10 percent of all farms to 4.0 percent. Vulnerable farms are defined as those with negative net farm income and debt-to-asset ratios of 40 percent or more.

Data collected in early 1994 indicate a slight increase in the concentration of financial

stress. On January 1, 1994, the number of vulnerable farms rose to 5.4 percent of all farms, as income declined and use of debt increased during 1993. A similar change occurred among commercial-size farms, those having annual sales of \$40,000 or more. In 1986, 14 percent of commercial farms were classified as vulnerable; that fell to 3.9 percent on January 1, 1993, but rose to 6.3 percent at the start of 1994. Two factors in the decline in performance for these farms were the floods and drought of 1993.

Overall, the net incomes of commercial farms fell in 1993 for farms located in the Southeast, Delta, Southern Plains, Northern Plains, and Lake States. The largest decline was in the Lake States (Minnesota, Michigan, and Wisconsin), where farm income fell about 50 percent in 1993. Government payments as a percent of gross income nearly doubled for commercial farms in 1993. In the Corn Belt, the number of vulnerable farms rose from 3.4 percent of Corn Belt farms in 1992 to 6.9 percent in 1993. In the Lakes States, vulnerable farms accounted for 5.3 percent of farms in 1992 and 7.8 percent in 1993. Commercial farms also increased debt use during 1993. The average debt-to-asset ratio rose from 15 percent in 1992 to 18 percent in 1993. On a per farm basis, liabilities increased from \$106,300 to \$133,500.

Farms facing the most financial stress among commercial-size farms tended to have operators that were younger than average, were in partnerships, worked more in non-farm occupations, operated fewer acres and rented a larger portion of their acres. Despite the increase in financial vulnerability among commercial-size farms in 1993, the overall financial condition of U.S. farming remains superior to that of the 1980's.

Food Prices: U.S agriculture continues to provide consumers with low cost, ample

supplies of food. The Consumer Price Index (CPI) for food rose 2.2 percent in 1993, compared with a 3 percent increase in the CPI for all items. The outlook for 1994 is for continued moderate rises in food prices of 2-4 percent. Low inflation will keep the costs of processing and distributing food from rising substantially. Supplies of meats will be ample and per capita consumption is expected to increase without pressuring retail meat prices. The largest increases are expected in cereals and bakery products, up 3-5 percent, where record high flour prices have been a factor in early 1994.

Farm Program Cost: CCC outlays for price and income support programs in FY 1994 are projected at \$12.1 billion, nearly 25 percent below FY 1993. The decrease primarily reflects higher feed grain prices which are projected to result in nearly a \$5 billion decrease in outlays for the feed grain program. Outlays for the wheat, rice, and upland cotton programs are also expected to be down in FY 1994. The projected \$4 billion decline in farm program outlays in FY 1994 includes disaster assistance of \$2.6 billion.

For FY 1995, CCC outlays are projected to decline to about \$9 billion, reflecting anticipated declines in the cost of the upland cotton program, reduced disaster assistance, and reduced claims for CCC export credit guarantees. We will be releasing the mid-session update of the President's Budget next month, which will likely change some of these projections.

Longer Term Economic Context for the 1995 Farm Bill

As part of the budget and outlook process, USDA prepares baseline projections for major crops and livestock. The baseline is a long-run scenario, a composite of model results and judgmental analysis, that describes what would be expected to happen with current

agricultural laws and very explicit external circumstances. The Department published its comprehensive baseline, "Long-term Agricultural Baseline Projections," in October 1993. Five-year program crop projections are also provided with the President's Budget.

Baseline Assumptions: Long-term projections are conditional on various assumptions about the future. Some assumptions underlying our current baseline are as follows:

- The Export Enhancement Program (EEP) operates at the FY 1994 program level of \$1 billion per year.
- Land enrolled under Conservation Reserve Program (CRP) contracts becomes available as contracts expire, but not all CRP land returns to crop production.
- Farm programs continue as provided by current law.
- The effects of NAFTA but not the Uruguay Round Agreement are included, since implementation legislation for the latter has yet to be approved by Congress.
- World GDP growth is expected to be more robust in 1995 and 1996 reaching and then holding at 3.6 percent in later years.
- Income growth continues negative through 1995 in the FSU and then improves slowly, while FSU import demand continues to decline for several more years.
- China's agricultural exports decline and feed import demand increases from current levels.

Baseline Trends: The projections for the next several years indicate a modest increase in acreage of major crops. This projection reflects fairly stable commodity prices, the expiration of existing CRP contracts, and growth in domestic use and exports. We anticipate that one-half to two-thirds of acreage currently enrolled in the CRP will return to

crop production once existing CRP contracts expire. The return of some CRP acres to crop production is expected to result in a return to acreage reduction program (ARP) percentages above zero for wheat and feed grains in the late 1990's. However, ARP levels are expected to remain modest at near 5 percent.

The baseline projections anticipate significant growth in exports over the next several years. This growth reflects expected steady U.S. farm prices, CAP reform, NAFTA, economic growth especially in developing countries, and continued funding of U.S. export programs at current levels. U.S. exports of corn and wheat are expected to increase by about one-fifth in the second half of the 1990's. U.S. exports of both crops are projected to grow faster in the 1990's than in the 1980's.

Record meat supplies are projected to continue for the rest of the decade, reflecting moderate feed prices, small increases in other production costs, and ample forage supplies. Consumers purchase more meat, but a larger proportion will be poultry. The long-term decline in the real price of meat continues. Declining real prices along with increases in real disposable income allow consumers to buy more meat with a smaller proportion of disposable income.

Over the next several years, net farm income is expected to remain fairly steady in nominal terms but decline in real terms. Both crop and livestock receipts are up as are production expenses, which increase by about the rate of inflation. The value of farm assets is projected to increase at near the rate of inflation in the second half of the 1990's, with farm debt growing somewhat slower, thus lowering the debt-to-asset and debt-to-equity ratios. The trend to fewer but larger farms is expected to continue. Off-farm income will

continue to be the primary source of average farm operator household income.

Retail food prices are projected to rise by 2-4 percent per year, or somewhat less than the general inflation rate, continuing a long-term trend. Expenditures for meals eaten away from home will continue to account for a growing share of food spending.

CCC outlays are expected to stabilize at \$9-\$10 billion per year over the latter half of the 1990's. Both the wheat and feed grain programs are expected to cost about \$2-\$3 billion per year followed by the upland cotton program at about \$1 billion per year and the rice program at about \$0.5 billion per year. Despite the forecast of increasing adoption of bST, net removals of dairy products decline as increases in commercial use outpace production. The cost of the dairy program is forecast to be in the range of \$0.1-\$0.2 billion per year during the latter half of the 1990's. Export programs and disaster assistance are each expected to cost about \$1-\$1.5 billion per year over the next several years.

Uruguay Round Effects: The Uruguay Round Agreement is an historic effort to open world agricultural markets, prompting increased trade and economic growth. The agricultural agreement covers four areas including export subsidies, market access, internal supports, and sanitary and phytosanitary rules.

The Uruguay Round Agreement on agriculture, to be implemented during 1995-2000, will lead to substantially improved access for U.S. agricultural exports. Requiring countries to reduce levels of trade-distorting support, export subsidies and import protection will reverse the increasing trend in protectionism that has shut our exports out of a number of growing markets. The Department's analysis of the Uruguay Round Agreement, published in March 1994, projects that agricultural exports will rise over current baseline levels by

\$1.6 to \$4.7 billion in 2000 and \$4.7 to \$8.7 billion in 2005. By 2000, the Agreement is expected to result in about a 7.5-percent increase in U.S. wheat and feedgrain exports, an 8-percent increase in cotton exports, a 3-percent increase in soybean exports, and a 13-percent increase in exports of rice. Significant gains in U.S. exports are also anticipated for livestock, poultry, and several fruits and vegetables.

Increases in exports under the Uruguay Round Agreement will raise farm prices and income. The projected increase in cash receipts is about \$5 billion by 2000. However, higher livestock production costs resulting from higher feed prices, higher crop production costs associated with expanded output, and lower government payments offset much of the increase in cash receipts. After netting out the effects of higher production costs and lower government payments, the Uruguay Round Agreement is expected to raise net farm income by as much as \$1.3 billion in 2000 and by as much as \$2.5 billion in 2005.

The Uruguay Round Agreement will lower the costs of farm programs. Under the Agreement, export subsidies must be reduced from projected levels and higher exports raise farm prices, reducing payments to farmers and price support loan activity. Under the Agreement, CCC outlays for export programs are projected to decline by about \$1.6 billion during 1995-99. The Department estimates the Agreement will reduce total farm program spending by about \$3-\$4 billion during 1995-99.

Implications of the Outlook for 1995 Farm Bill: As the 1995 Farm Bill debate begins, program crops appear likely to be in reasonably good supply/demand balance. For most program crops, stocks are lower and prices are higher than levels going into the 1990 Farm Bill debate. If there is a major concern, it is the low corn and soybean stocks caused

by last year's excessive rain and flooding in the midwest. A return to more normal weather coupled with 0-percent ARP's should help to rebuild stocks in 1994/95.

Beyond 1994/95, program crop acreage is expected to increase as CRP contracts expire over the next several years. Between 1993 and 2000, we project acreage planted to major crops will increase by about 15 million acres. The policy concern is the impact this increase will have on prices and the need for ARP's. Despite the increase in plantings and production, the Department projects crop prices to strengthen in the late 1990's as increases in domestic use and exports outpace the increase in supplies. NAFTA and the Uruguay Round will add to the export demand. Higher real incomes, population growth, and increases in exports should also strengthen livestock prices in the latter 1990's.

Structural Context for 1995 Farm Bill

Farm policy must deal with a dynamic and widely diverse agricultural sector that is constantly changing in response to social forces, economic pressures, and farm policy choices. The number of farms declined rapidly in the 1950's and 1960's, but since then the rate has declined. The number of farms is not simply a declining trend; each year there are entrants and exits. For example, one study estimated that between 1982 and 1987, 75,000 operators entered farming per year and 106,000 departed for a net annual decline of 31,000 in U.S. farm numbers. The trend toward fewer farms has been accompanied by a trend toward larger farms. Less than 2 percent of all farms now account for nearly 40 percent of the value of U.S. farm output.

Some 70 percent of farms are small with annual sales less than \$40,000 and sole proprietorships are the most common type of farming operation, accounting for 90 percent of

the farms. The 30 percent of farms that are of commercial size control most of the assets in agriculture, account for over 90 percent of farm sales, and receive about 85 percent of government program payments. Approximately half of the noncommercial farm operators consider farming to be their major occupation and on average devote 20 hours a week to farm work. Noncommercial farms are less likely to be marginally solvent or vulnerable financially than commercial-size farms.

The average age of farm operators is 54 years. Approximately half of U.S. farms are operated by persons over age 55. It is estimated that 500,000 farmers will retire in the next decade, outpacing new entrants by two to one. Older farmers face asset transfer and other financial issues related to retirement, while young farmers and beginning farmers face issues related to the costs of capital and the viability of rural communities.

Farms differ in cost structure and profitability. For example, 25 percent of U.S. corn farms have an average variable cost of \$0.95 a bushel or less and 10 percent have average variable costs of \$1.78 a bushel or more. Per-unit costs generally decrease as farm size increases, reflecting that large farm operations are able to take advantage of technical or cost efficiencies.

The structure of agricultural marketing has also changed. Many commodities are now commonly sold in markets characterized by long-term relationships between buyer and seller, rather than in spot markets traditionally used by farmers. Good examples of this are poultry and processing vegetables which are grown under contract or within an integrated ownership.

Implications of Structure for the 1995 Farm Bill: Rapid structural change in the number and size of farms appears to have slowed. The current structure is one of a

relatively small number of large-size producers dependent on farm income with relatively high household incomes, and a large number of small-size producers dependent on off-farm income. This structure reveals the difficulty in trying to address the income of the noncommercial farms with price and income supports tied to base acres. Noncommercial farms average 33 harvested acres compared with 425 acres for commercial farms. Price and income supports can do little to affect their bottom line. Off-farm opportunities are critical to their well-being.

The concentration of program payments among higher income commercial farms reflects larger crop acreage bases. The 10 percent of farms with gross sales over \$250,000 received almost 30 percent of total payments in 1992. The 50 percent of farms with gross sales under \$50,000 received less than a quarter of total payments. Because most farm households do not receive farm program payments and because payments are determined by the amount of base acreage farmed, only a small percentage of payments go to farmers in poor financial condition. In 1992, the financially vulnerable farm households received less than 5 percent of total government payments. The distribution of payments will continue to be a Farm Bill issue.

Environmental Context for the 1995 Farm Bill

Agriculture affects the environment by using air land, water, and chemicals to produce crops and livestock. Programs now in place, under authorities provided in the last two farm bills, have substantially moderated the adverse environmental effects from farming, and the 1995 Farm Bill provides another opportunity to continue that record. Commercial fertilizer use in farming rose from a total of 7.5 million tons in 1960 to a record high 23.7

million tons in 1981. Use fell to 20.9 million tons in 1993. Pesticide use by farmers peaked in the mid-1980's. Since the mid-1970's, pesticide application rates have remained stable at about 2.2 pounds (active ingredients) per acre. Notably, the total amount applied and the application rate for insecticides are now half the levels of the mid-1960's.

Adoption of Integrated Pest Management (IPM) practices, particularly by producers of chemical-intensive crops like cotton, has contributed to reduced pesticide use. Use of IPM practices varies greatly by crop. For example, 29 percent of corn acres are scouted for insects, 53 percent for weeds and only 23 percent are managed using conventional pest control. Seventy-six percent of potato acreage is operated under IPM practices. The Administration's goal is to develop a strategic plan for application of IPM practices to 75 percent of cropland by the year 2000.

Until recently, environmental and conservation policies have focused on point sources of pollution like factory discharges, where the source is easily identified and mitigation strategies are well developed. Public attention has shifted to nonpoint sources, including agriculture. Agriculture contributes to surface and ground water pollution through leaching and runoff of chemicals, animal waste, sedimentation, and salinization. Because tracing the source of water impairment back to the source is frequently impossible, broad mitigation measures are needed. The reauthorization of the Clean Water Act is expected to result in reduced agricultural nonpoint pollution.

Management measures in impaired watersheds will increase the need for technical and financial assistance to affected farmers. USDA's water quality program has extended assistance to farmers and landowners in over 400 project areas. The Water Quality Incentive

Projects has cost-shared management measures on over 400,000 acres.

Half of historic U.S. wetland acreage has been lost over the past 200 years. About 274 million acres of wetlands remain nationwide, including 170 million acres in Alaska. Remaining wetlands and converted wetlands are largely privately owned, while the multiple environmental benefits provided by wetlands accrue to society at large. The 1992 pilot Wetland Reserve Program (WRP) acquired permanent easements on nearly 50,000 acres at a cost of \$46 million. Enthusiasm for the WRP is evidenced by the fact that during the latest enrollment, farmers and ranchers offered more than seven times the 75,000 acres for which funding was provided in FY 1994.

The rate of erosion has slowed because of changes in the kinds of crops grown, the amount of cropland idled under government programs, adoption of conservation tillage methods, and other erosion control practices on highly erodible land. Some form of conservation tillage is now used on over one-third of the total U.S. planted crop acreage (97 million acres in 1993). This is a 35-percent increase in just four years. Conservation tillage is often adopted by USDA program participants subject to conservation compliance rules.

Now in its ninth year, the CRP has converted 36.4 million acres of cropland to conserving uses under 10-year contracts. At a current annual cost of \$1.8 billion, the CRP has achieved its goals of reducing soil erosion on highly erodible land, protecting the Nation's longrun capacity to produce food and fiber, reducing sedimentation, improving water quality, fostering wildlife habitat, curbing production of surplus commodities, and providing income support for farmers. It is estimated that the CRP has reduced soil erosion by nearly 700 million tons per year nationwide, or by 22 percent compared with conditions

prior to the CRP.

The first CRP contracts covering 2.2 million acres expire in 1995. Contracts covering another 22 million acres expire in 1996 and 1997.

Overview of the 1990 Farm Bill and Implications for 1995

Farm Program Spending: Projected USDA outlays for FY 1994 are \$64.9 billion, of which \$38.2 billion is attributable to food, nutrition, and consumer services programs. Estimated USDA outlays are 4.4 percent of total Federal spending. Estimated CCC program outlays, which include commodity programs, disaster assistance, and export promotion programs, are \$12.1 billion. This figure compares to a record high outlay of \$25.8 billion in FY 1986. CCC programs are less than 1 percent of Federal spending.

The Food Security Act of 1985 (1985 Act), the Food, Agriculture, Conservation, and Trade Act of 1990, and the Omnibus Budget Reconciliation Act of 1990 (1990 Acts) made numerous changes in farm commodity programs to meet deficit reduction targets. The 1985 Act reduced target prices for program crops by 10 percent and froze program yields. The 1990 Acts reduced payment acres by 15 percent, imposed marketing assessments on nonprogram commodities, established deficiency payment rates for grains based on season-average prices, and continued to freeze program yields. These provisions alone have reduced CCC outlays for program crops by an estimated \$7-\$8 billion annually or roughly 80 percent.

USDA estimated in November 1989, that extension of the 1985 Act would lead to farm program costs of \$66 billion during FY 1991-95. Farm program costs are now estimated to total about \$57 billion over that same period. We estimate farm program costs

would fall to less than \$50 billion during the 5-year period, FY 1996-2000, if current farm programs are simply extended another 5 years. Thus, current farm programs have contributed to deficit reduction. Farm programs are expected to continue this trend in the future as increases in exports and domestic use increase farm prices for program crops, reducing deficiency payments.

Budgetary constraints will place further pressure on farm program spending in 1995. Some will argue that agriculture has already contributed enough to deficit reduction and cuts in farm programs have far outweighed cuts in other areas. Since the mid-1980's, annual CCC expenditures for commodity programs have been cut about 50 percent, while total Federal spending increased by 50 percent.

Competitiveness in World Markets: Amid concerns that loan rates were making the U.S. uncompetitive in world markets and leading to burdensome carryover levels, the 1985 Act reduced loan rates beginning with the 1986 crops. Future loan rates were determined by formulas that took into account past market prices. To further ensure U.S. competitiveness, marketing loans for rice and cotton were mandated and made discretionary for grains and soybeans.

Although the 1990 Acts altered the formulas for grains, causing loan rates to increase, loan rates continued to remain well below pre-1986 levels. In addition, the 1990 Acts made marketing loans mandatory for soybeans and minor oilseeds. Marketing loans for grains were required if the U.S. failed to enter into a Uruguay Round Agreement by June 30, 1992. Marketing loans are now in effect for all program crops.

The 1990 Acts continued the intermediate export credit guarantee program and the

Export Enhancement Program (EEP) established by the 1985 Act. The EEP provided direct export subsidies to exporters to counter the trade distorting subsidies of the European Union and other countries, contributing to trade reforms and the Uruguay Round Agreement.

Lower loan rates, the use of commodity certificates, and marketing loans have essentially eliminated government grain inventories. This has led to concern about the adequacy of available inventories to offset reduced yields resulting from adverse weather, such as in 1993.

Loan rates have been increased in recent years, encouraging farmers to pledge larger amounts of grain as collateral for CCC price support loans. But, increasing loan rates will not likely lead to larger inventories of grains, since marketing loans provide little to no incentive for farmers to store or forfeit grain to the CCC. Furthermore, raising loan rates can alter farmers' production decisions and increase farm program costs since all of a participant's production is eligible for marketing loan benefits.

Conservation: The 1985 Act included sodbuster and swampbuster provisions and the CRP for the purpose of removing highly erodible land and wetlands from crop production. In addition, conservation compliance prohibits paying USDA program benefits to any person who produces an agricultural commodity on highly erodible land without the use of conservation practices appropriate for that land. The 1990 Acts expanded the list of USDA program benefits for which farmers are ineligible if they violate a conservation compliance plan, plant without a plan, plant on wetlands, or convert wetlands.

The potential loss of environmental, conservation, and farm income benefits resulting from CRP contract expiration will lead to debate on the future course of environmental

programs for agriculture in 1995. Some of the issues will include: (1) program funding level (2) the allocation of program funding between land retirement and other types of conservation programs; and (3) the selection criteria for land retirement including to what extent existing CRP contracts should be extended.

Planting Flexibility: Under the 1990 Acts, program crop producers may plant alternative crops on up to 25 percent of base acres and have their base protected. The 25-percent of base acres that may be planted to alternative crops consists of (1) normal flex acres (NFA) or 15 percent of base acres and (2) optional flex acres (OFA) or 10 percent of base acres. Farmers are ineligible for program payments on NFA and receive payments on OFA, only those acres are planted to the original program crop. Since farmers do not receive payments on NFA no matter what crop is planted, the decision to plant one crop versus another is determined by a farmer's expected market returns for competing crops.

Under the flexibility provisions of the 1990 Acts, producers planted 4.7 million acres of program crop base to soybeans, 0.4 million acres to minor oilseeds, and 0.7 million acres to other nonprogram crops in 1993. In 1993, producers also shifted about 3 million acres of program crop base from one program crop to another. These shifts in acreage enabled producers to increase profits, plant less erosive crops, and increase plantings of new and experimental crops.

While the 1990 Acts increased planting flexibility significantly, only 15 percent of base acres can be planted to alternative crops without giving up program payments. Many farmers continue to be limited in their choice of crops and in how much acreage they can devote to alternative crops and remain eligible for program payments. In addition, some

farmers continue to be reluctant to plant alternative crops either because of the complexity of the current programs or concerns that base determination will be further changed.

Implications of Current Program Performance for the 1995 Farm Bill: The 1995 Farm Bill debate will be significantly influenced by budgetary restraint. Balancing budget limitations with program and policy objectives will be a key challenge as we begin to address farm policy for the future.

Mr. Chairman, that completes my Statement. I would be pleased to address any questions you or the other members might have.

(Attachments follow:)

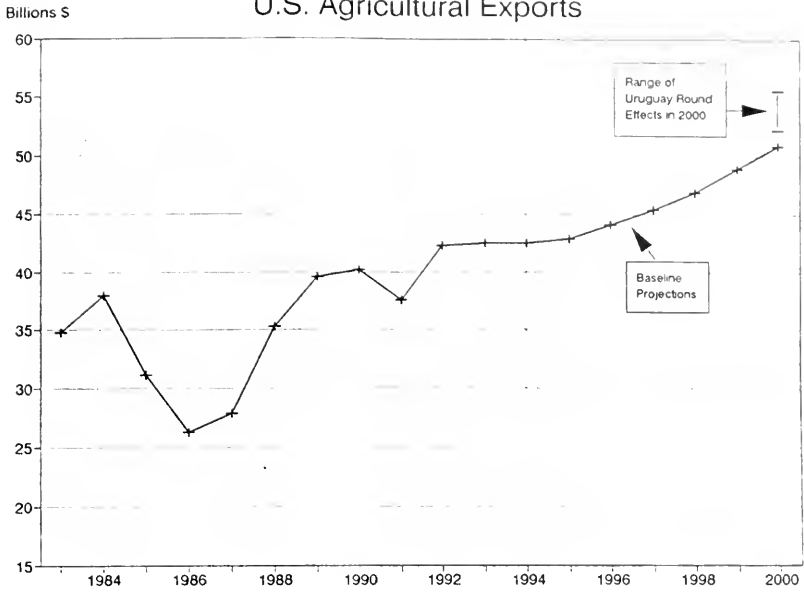
Agricultural and general economic statistics

Item	Unit	1990	1991	1992	1993	1994 F
GDP	Percent change from previous year	0.8	-0.7	2.6	3.0	2.8 - 4.1
CPI All Items	"	5.4	4.2	3.0	2.9	2.5 - 3.0
CPI Food	"	5.8	2.9	1.2	2.2	2.0 - 3.0
Prime Interest Rate	Percent	10	8.5	6.3	6.0	6.7 - 7.1
Unemployment Rate	"	5.5	6.8	7.4	6.8	6.2 - 6.5
Gross Cash Farm Income	\$ Billion	186.8	184.7	187.9	194.5	190 - 198
Cash Farm Expenses	"	130.9	131.4	130.2	132.0	131 - 139
Direct Government Payments	"	9.3	8.2	9.2	12.7	6 - 10
Net Cash Income	"	55.9	53.3	57.7	62.5	53 - 63
Net Farm Income	"	46.5	40.0	48.6	45.5	45 - 55
Farm Household Income Total	Dollars per operator household	39,007	36,031	40,648	40,699	40,000-43,500
Farm Sources		5,742	4,393	4,917	5,745	4,600 - 6,100
Agricultural Exports Value	\$ Billion	40.1	37.5	42.3	42.5	42.5
Volume	Million MT	148.7	129.4	143.6	146.8	129.3
Agricultural Imports	\$ Billion	22.5	22.6	24.3	24.5	25
Agricultural Trade Balance	"	17.6	14.9	18	18	17.5
Prices Received Index	1977 = 100	149	145	140	141	142 - 148
Prices Paid Index	"	184	189	191	194	193 - 201
PR/PPI	Ratio	81	77	73	73	74 - 74
Farm Output Index	1982 = 100	112	112	121	112	116 - 124
Livestock and Products	"	112	114	117	117	117 - 121
Crops	"	112	109	126	107	114 - 120
Farm Assets	\$ Billion	848.3	842.2	861.5	888	915 - 925
Farm Debt	"	137.4	138.9	139.3	142	141 - 145
Farm Debt/Assets	Percent	16.2	16.5	16.3	16.0	15 - 17

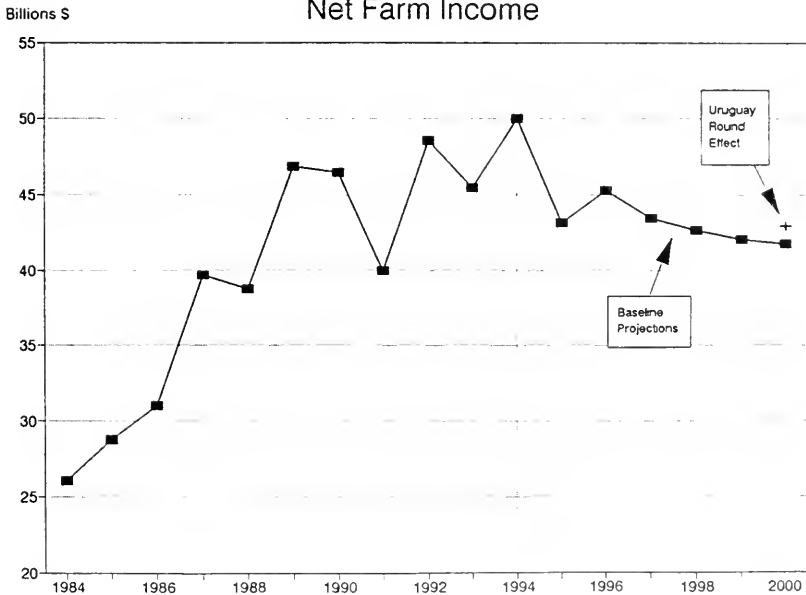
Characteristics of farm operators on January 1, 1991-93, by economic size of farm

	1991			1992			1993		
	Under \$40,000	\$40,000 and over	All farms	Under \$40,000	\$40,000 and over	All farms	Under \$40,000	\$40,000 and over	All farms
Number of farms	1,465,777	634,123	2,099,900	1,463,300	627,400	2,090,700	1,452,368	610,932	2,063,300
Share of all farms	69.80	30.20	100.00	69.99	30.01	100.00	70.39	29.61	100.00
Percentage of farms in size class:									
Individual	95.38	82.56	91.51	94.81	82.69	91.18	94.08	82.06	90.52
Partnership	3.60	11.22	5.90	4.02	10.98	6.10	4.25	10.39	6.07
Family corporation	1.03	5.38	2.26	1.05	5.33	2.34	1.21	6.68	2.83
Other corp., cooperative	d	0.84	0.34	0.12	1.00	0.38	0.47	0.86	0.58
Acreage operated per farm:									
Owned	144	481	246	142	582	274	147	573	273
Cash rented	32	300	113	32	333	122	36	351	130
Share rented	10	175	60	9	164	56	6	177	56
Total operated	178	932	406	178	1,049	440	171	1,068	436
Acres Harvested:									
Corn	5	105	35	5	105	35	4	102	33
Wheat	4	74	25	6	80	28	4	86	28
Soybeans	5	77	27	4	77	26	4	76	26
Cotton	0	16	5	0	17	5	0	19	0
Other grains	2	34	12	2	34	12	1	33	0
Other crops	18	78	36	18	74	35	19	81	11
Total harvested	35	403	147	36	406	147	33	425	149
Per farm:									
Assets	241,219	710,338	382,943	241,031	714,822	383,212	249,981	760,563	401,162
Debt	15,436	116,861	46,064	14,560	106,319	42,096	16,436	133,512	51,101
Cash operating expenses	11,375	143,509	51,277	10,847	137,413	48,828	11,530	165,759	57,196
Gross cash income	9,572	183,933	62,225	9,208	182,486	61,207	10,387	208,351	69,003
Percentage of all farm:									
Overhead costs	11.96	88.04	100.00	11.49	88.51	100.00	9.14	90.86	100.00
Cash Sales	7.55	92.45	100.00	7.97	92.03	100.00	6.72	93.28	100.00
Government Payments	17.66	82.34	100.00	17.81	82.19	100.00	15.67	84.33	100.00
Farm operator average:									
Age	55	49	53	55	50	54	56	49	54
Hours worked per week	21	52	30	20	52	30	20	54	30
Percentage of operators by major occupation:									
Farming	41.99	91.22	56.86	39.42	89.36	54.41	51.41	89.27	62.62
Other than farming	58.01	8.78	43.14	60.58	10.64	45.59	48.59	10.73	37.38
Income solvency (Percent):									
Favorable	58.9	63.7	60.3	59.9	67.5	62.2	55.5	60.5	57.0
Marginal income	34.9	18.6	30.0	34.4	18.5	29.6	36.6	21.2	32.1
Marginally solvent	2.1	11.9	5.1	1.8	10.1	4.3	2.9	12.0	5.5
Vulnerable	4.2	5.8	4.7	4.0	3.9	4.0	5.1	6.3	5.4

U.S. Agricultural Exports

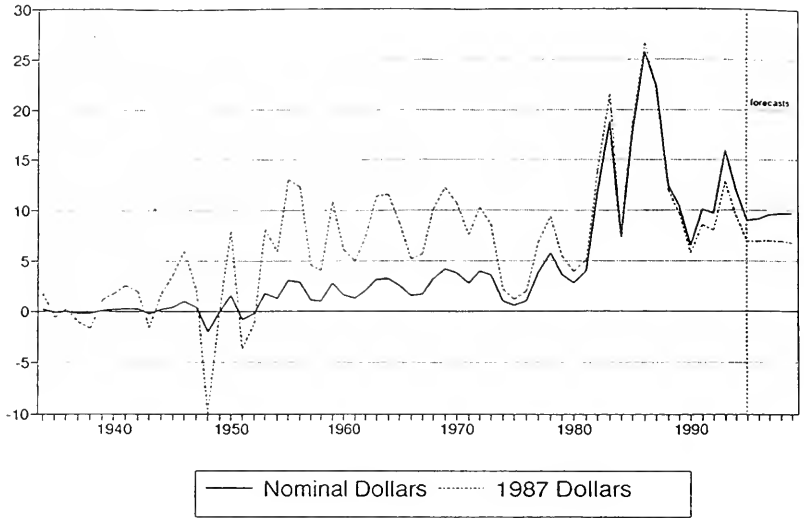


Net Farm Income



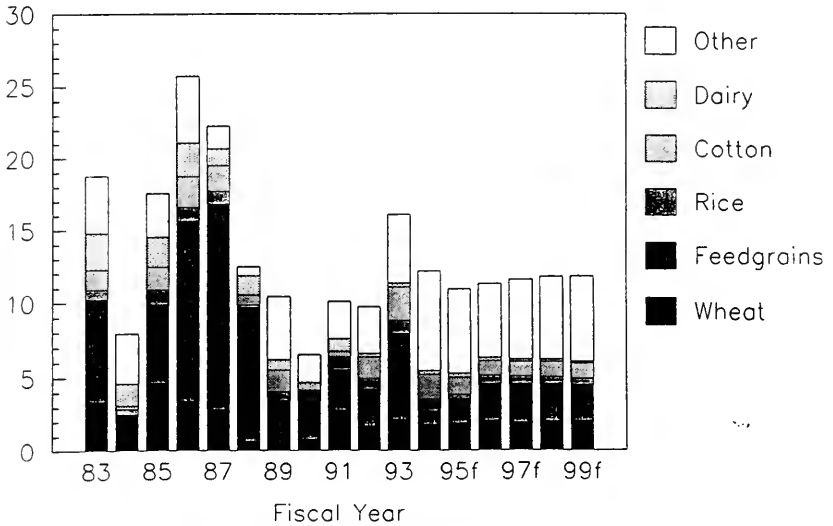
CCC Outlays on Commodity Price Support and Related Programs

Billions \$



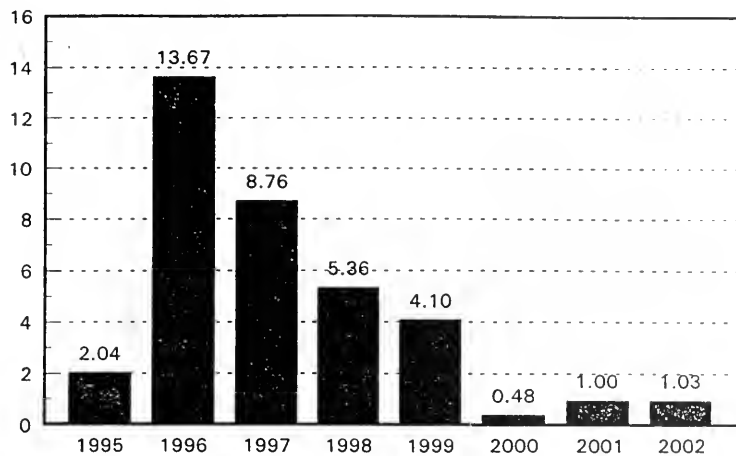
CCC Outlays by Category

Bil. Dol.

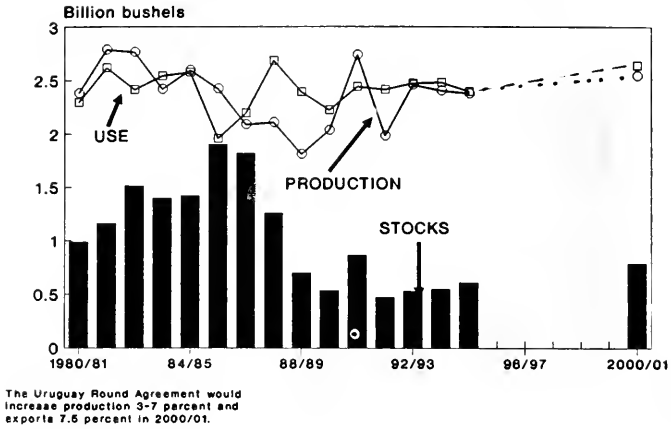


Schedule of CRP Contract Expiration

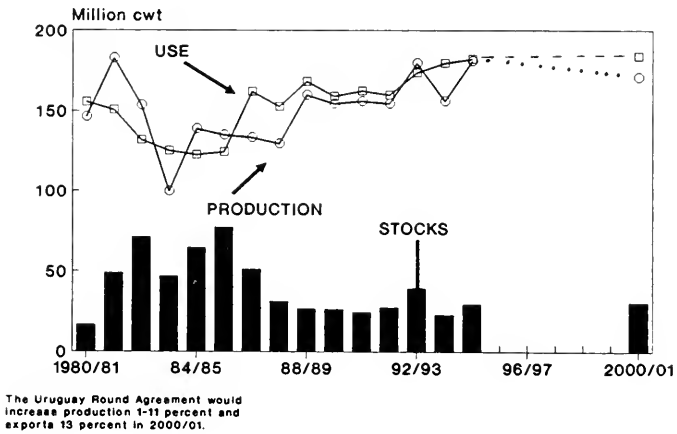
Million acres



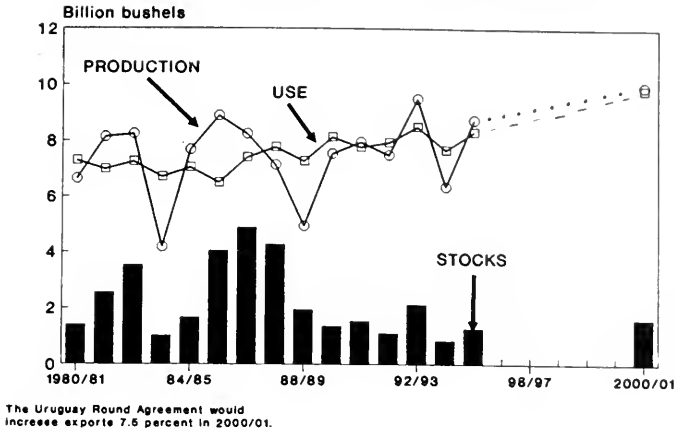
WHEAT PRODUCTION, USE, AND STOCKS



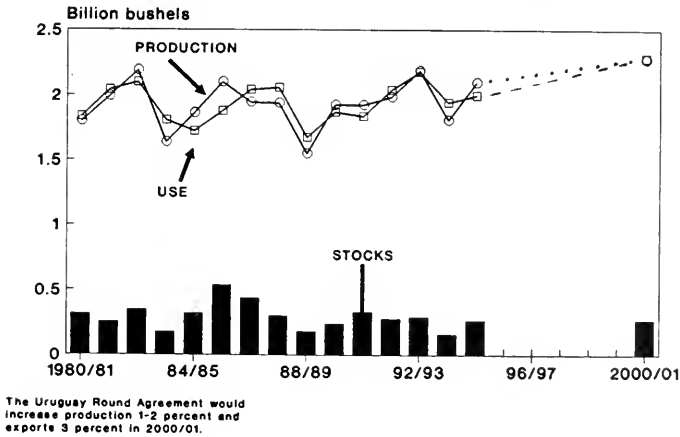
RICE PRODUCTION, USE, AND STOCKS



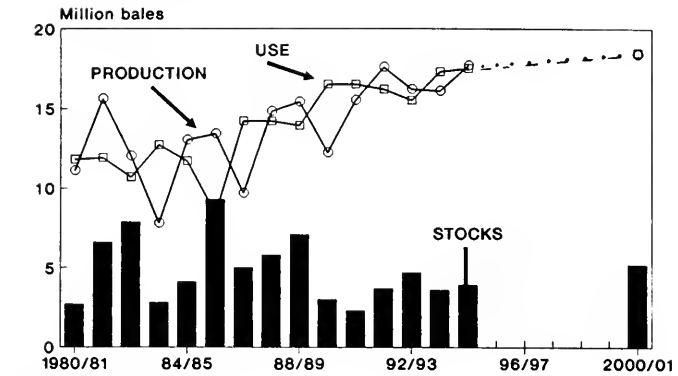
CORN PRODUCTION, USE, AND STOCKS



SOYBEANS PRODUCTION, USE, AND STOCKS



COTTON PRODUCTION, USE, AND STOCKS



The Uruguay Round Agreement would increase production 2 percent and exports 5-6 percent in 2000/01.

Wheat: Selected Data and Forecasts for Marketing Years 1980/81-1994/95 and 2000/01. 1/

Marketing Year	Planted Acreage (mil. ac.)	Yield (bu./ac.)	Production (mil. bu.)	Domestic Use (mil. bu.)	Exports (mil. bu.)	Ending Stocks (mil. bu.)	Stocks-to-Use Ratio (percent)	Farm Price (dol./bu.)
2000/01f	73.1	40.0	2,545	1,265	1,375	787	29.8	2.95
1994/95f	71.5	38.3	2,375	1,222	1,175	607	25.3	2.75-3.35
1993/94e	72.2	38.3	2,402	1,257	1,225	549	22.1	3.20
1992/93	72.3	39.4	2,459	1,118	1,354	529	21.4	3.24
1991/92	69.9	34.3	1,981	1,137	1,280	472	19.5	3.00
1990/91	77.2	39.5	2,736	1,375	1,068	866	35.4	2.61
1989/90	76.6	32.7	2,037	993	1,232	536	24.1	3.72
1988/89	65.5	34.1	1,812	975	1,419	702	29.3	3.72
1987/88	65.8	37.7	2,108	1,086	1,598	1,261	47.0	2.57
1986/87	72.0	34.4	2,091	1,197	999	1,821	82.9	2.42
1985/86	75.5	37.5	2,424	1,052	909	1,905	97.1	3.08
1984/85	79.2	38.8	2,595	1,156	1,421	1,425	55.3	3.39
1983/84	76.4	39.4	2,420	1,114	1,426	1,399	55.1	3.51
1982/83	86.2	35.5	2,765	908	1,509	1,515	62.7	3.45
1981/82	88.3	34.5	2,785	847	1,771	1,159	44.3	3.69
1980/81	80.8	33.5	2,381	783	1,514	989	43.1	3.99

1/Forecast for 2000/01 assumes no Uruguay Round Agreement, since the Agreement has not been approved by Congress.

Rice: Selected Data and Forecasts for Marketing Years 1980/81-1994/95 and 2000/01. 1/

Marketing Year	Planted Acreage (mil. ac.)	Yield (pounds)	Production (mil. cwt.)	Domestic Use (mil. cwt.)	Exports (mil. cwt.)	Ending Stocks (mil. cwt.)	Stocks-to-Use Ratio (percent)	Farm Price (dol./cwt.)
2000/01f	3.07	5,683	171.1	120.2	64.0	30.6	16.6	9.20
1994/95f	3.29	5,656	181.0	101.3	81.0	29.5	16.2	5.75-7.25
1993/94e	2.92	5,510	156.1	98.8	81.0	22.8	12.7	8.25-8.45
1992/93	3.18	5,736	179.7	96.7	77.0	39.4	22.7	5.89
1991/92	2.88	5,674	154.5	93.5	66.4	27.4	17.1	7.58
1990/91	2.90	5,529	156.1	91.7	70.9	24.6	15.1	6.70
1989/90	2.73	5,749	154.5	82.0	77.2	26.4	16.6	7.35
1988/89	2.93	5,514	159.9	82.5	85.9	26.7	15.9	6.83
1987/88	2.36	5,555	129.6	80.4	72.2	31.4	20.6	7.27
1986/87	2.38	5,651	133.4	77.7	84.2	51.4	31.7	3.75
1985/86	2.51	5,414	134.9	65.8	58.7	77.3	62.1	6.53
1984/85	2.83	4,954	138.8	60.5	62.1	64.7	52.8	8.04
1983/84	2.19	4,598	99.7	54.9	70.3	46.9	37.5	8.57
1982/83	3.30	4,710	153.6	62.9	68.9	71.5	54.2	7.91
1981/82	3.83	4,819	182.7	68.6	82.0	49.0	32.5	9.05
1980/81	3.38	4,413	146.2	64.2	91.4	16.5	10.6	12.80

1/Forecast for 2000/01 assumes no Uruguay Round Agreement, since the Agreement has not been approved by Congress.

Marketing Year	Planted Acreage (mil. ac.)	Yield (bu./ac.)	Production (mil. bu.)	Domestic Use (mil. bu.)	Exports (mil. bu.)	Ending Stocks (mil. bu.)	Stocks-to-Use Ratio (percent)	Farm Price (dol./bu.)
2000/01f	82.6	132.0	9,955	7,915	1,925	1,611	16.4	2.35
1994/95f	78.6	122.1	8,725	6,950	1,350	1,262	15.2	2.10-2.50
1993/94e	73.3	100.7	6,344	6,425	1,225	832	10.9	2.50-2.60
1992/93	79.3	131.4	9,482	6,813	1,663	2,113	24.9	2.07
1991/92	76.0	108.6	7,475	6,332	1,584	1,100	13.9	2.37
1990/91	74.2	118.5	7,934	6,036	1,725	1,521	19.6	2.28
1989/90	72.2	116.3	7,525	5,745	2,368	1,344	16.6	2.36
1988/89	67.7	84.6	4,929	5,234	2,026	1,930	26.6	2.54
1987/88	66.2	119.8	7,131	6,041	1,716	4,259	54.9	1.94
1986/87	76.6	119.4	8,226	5,893	1,492	4,882	66.1	1.50
1985/86	83.4	118.0	8,875	5,267	1,227	4,040	62.2	2.23
1984/85	80.5	106.7	7,672	5,182	1,850	1,648	23.4	2.63
1983/84	60.2	81.1	4,174	4,806	1,886	1,006	15.0	3.21
1982/83	81.9	113.2	8,235	5,428	1,821	3,523	48.6	2.55
1981/82	84.1	108.9	8,119	4,978	1,997	2,537	36.3	2.47
1980/81	84.0	91.0	6,639	4,891	2,391	1,392	19.1	3.12

1/Forecast for 2000/01 assumes no Uruguay Round Agreement, since the Agreement has not been approved by Congress.

Soybeans: Selected Data and Forecasts for Marketing Years 1980/81-1994/91 and 2000/01. 1/

Marketing Year	Planted Acreage (mil. ac.)	Yield (bu./ac.)	Production (mil. bu.)	Domestic Use (mil. bu.)	Exports (mil. bu.)	Ending Stocks (mil. bu.)	Stocks-to-Use Ratio (percent)	Farm Price (dol./bu.)
2000/01f	61.8	37.6	2,280	1,510	780	270	11.8	6.00
1994/95f	61.1	35.0	2,100	1,390	610	265	13.3	5.35-6.45
1993/94e	59.4	32.0	1,809	1,366	580	160	8.2	6.45
1992/93	59.1	37.6	2,188	1,408	770	292	13.4	5.56
1991/92	59.2	34.2	1,987	1,357	684	278	13.6	5.58
1990/91	57.8	34.1	1,926	1,282	557	329	17.9	5.74
1989/90	60.8	32.3	1,924	1,247	623	239	12.8	5.69
1988/89	58.8	27.0	1,549	1,146	527	182	10.9	7.42
1987/88	58.2	33.9	1,937	1,255	802	302	14.7	5.88
1986/87	60.4	33.3	1,943	1,283	757	436	21.4	4.78
1985/86	63.1	34.1	2,099	1,137	741	536	28.5	5.05
1984/85	67.8	28.1	1,861	1,123	598	316	18.4	5.84
1983/84	63.8	26.2	1,636	1,062	743	176	9.8	7.83
1982/83	70.9	31.5	2,190	1,195	905	345	16.4	5.71
1981/82	67.5	30.1	1,989	1,112	929	254	12.4	6.07
1980/81	69.9	26.5	1,798	1,110	724	313	17.1	7.60

1/Forecast for 2000/01 assumes no Uruguay Round Agreement, since the Agreement has not been approved by Congress.

Cotton: Selected Data and Forecasts for Marketing Years 1980/81-1994/95 and 2000/01, 1/

Marketing Year	Planted Acreage (mil. ac.)	Yield (pounds)	Production (mil. bales)	Domestic Use (mil. bales)	Exports (mil. bales)	Ending Stocks (mil. bales)	Stocks-to-Use Ratio (percent)	Farm Price (cents/lb.)
2000/01f	13.2	715	18.4	11.6	6.9	5.2	28.1	N.A.
1994/95f	13.8	665	17.7	10.5	7.0	3.9	22.3	N.A.
1993/94e	13.4	606	16.1	10.3	7.0	3.6	20.8	58.0
1992/93	13.2	699	16.2	10.3	5.2	4.7	30.3	54.9
1991/92	14.1	652	17.6	9.6	6.6	3.7	22.8	58.1
1990/91	12.3	634	15.5	8.7	7.8	2.3	13.9	67.1
1989/90	10.6	614	12.2	8.8	7.7	3.0	18.2	66.2
1988/89	12.5	619	15.4	7.8	6.1	7.1	51.1	56.6
1987/88	10.4	706	14.8	7.6	6.6	5.8	40.8	64.3
1986/87	10.0	552	9.7	7.5	6.7	5.0	35.2	52.4
1985/86	10.7	630	13.4	6.4	2.0	9.3	110.7	56.3
1984/85	11.1	600	13.0	5.5	6.2	4.1	35.0	58.9
1983/84	7.9	508	7.8	5.9	6.8	2.8	22.0	66.6
1982/83	11.3	590	12.0	5.5	5.2	7.9	73.8	59.6
1981/82	14.3	542	15.6	5.3	6.6	6.6	55.5	55.6
1980/81	14.5	404	11.1	5.9	5.9	2.7	22.9	75.4

1/Forecast for 2000/01 assumes no Uruguay Round Agreement, since the Agreement has not been approved by Congress.

Statement of Steve Yoder
Chairman, Board of Directors
American Soybean Association

before the

Subcommittee on General Farm Commodities
Committee on Agriculture
U.S. House of Representatives

June 29, 1994

Good Afternoon, Mr. Chairman and Members of the Subcommittee. I am Steve Yoder, a soybean and peanut farmer from Altha, Florida, and Chairman of the Board of Directors of the American Soybean Association. ASA is a producer supported and directed national trade organization representing all U.S. soybean growers.

Mr. Chairman, profitability in the soybean sector, as in any industry, is a function of increasing demand and reducing costs. In our sector, demand has been driven by growing consumption of high protein soybean meal by U.S. and foreign livestock sectors. Demand for soybean oil has also grown, but so has competition from other domestic and foreign oilseed producers.

As U.S. soybean production expanded in the 1950's and 1960's, soybean oil became established as the standard in U.S. margarine and salad oil markets. At the same time, surplus soybean oil became a major export under the Food for Peace Program. The combination of expanding protein demand and policies designed to balance corn and soybean production encouraged ASA's orientation toward free trade in agriculture during the 1970's and 1980's.

During the 1980's, two shifts in policy reversed the boom in the U.S. soybean industry. First, U.S. farm programs came under increasing pressure to reduce government outlays. The sharp drop in loan rates under the 1985 Farm Bill undercut soybean prices and raised the importance of target prices and base acres.

Second, U.S. efforts to defend export markets for wheat and feed grains encouraged our foreign competitors to expand oilseed production. As the U.S. lost fifteen million acres in soybean and sunflower production between 1983 and 1990, Brazil, Argentina, Canada, and the European Community increased their acreage planted to soybeans, sunflower, and rapeseed by about the same amount.

In addition, U.S. competitors have increasingly targeted trade in vegetable oil as opposed to oilseeds. This policy has encouraged development of oilseed processing facilities which, in turn, is encouraging expanded oilseed production.

The Uruguay Round agreement represents a crossroads for the U.S. oilseed sector, Mr. Chairman. Our industry welcomes these negotiations and supported the original U.S. objectives of eliminating all trade distorting practices believing we had far more to gain than to lose from trade liberalization. We had pursued a zero-for-zero policy to eliminate all import barriers and government export incentives long after the Bush Administration abandoned this goal of the Round.

Unfortunately, the final agreement will reduce U.S. vegetable oil exports under EEP, SOAP, and COAP by 79 percent over the next six years without requiring any cuts in export by our competitors. Based on 1991-92 levels, this reduction will exceed 500,000 tons of lost oil exports per year by the year 2000. In addition, the Round includes practically no commitments by importing countries to reduce tariffs on vegetable oil. As Congress prepares to consider legislation to implement the new GATT agreement, we find ourselves in the very uncomfortable position of asking for protection from a trade agreement originally intended to liberalize world trade.

As you know, Mr. Chairman, the U.S. oilseed industry is united in asking the Administration and Congress to offset the impact of GATT through a program developing new domestic markets for industrial products based on vegetable oils. We are also proposing that vegetable oil supplies exceeding historical levels be purchased for food aid or for industrial uses. We ask Members of the Subcommittee to support these measures as an amendment to the GATT implementing legislation to ensure that our industry is not unfairly penalized for past efforts to support more open world trade.

To date the Administration has refused to acknowledge the very real and adverse effect the Uruguay Round will have on U.S. vegetable oil exports over the next six years. If we are unable to obtain relief in the Administrations bill to implement GATT, our industry will be forced to take a more aggressive position on future domestic and international trade issues, including provisions in the 1995 Farm Bill.

As you know, Mr. Chairman, soybeans and other oilseed are traditionally grown in rotation with feed grains, wheat, and cotton. Annual production has been less a function of retaining and maximizing farm program benefits as a response to market conditions. This has made oilseed production and profitability highly vulnerable to foreign competition in domestic and foreign markets. We have seen clear evidence of this vulnerability as U.S. oilseed acreage has eroded over the past decade.

If opportunities to compete are allowed to further deteriorate under the Uruguay Round, our industry will be forced to seek increased dependence on the Federal farm program. This dependence could take any of several forms: higher oilseed supports tied to the effective target price for program crops; expanded planting flexibility on program crops; expanded planting flexibility on program crop and set-aside acres; or some form of insurance program under which government purchases would be required if U.S. vegetable oil supplies exceed a specified level.

We recognize the discipline which budget realities impose on the Subcommittee, Mr. Chairman. Future efforts to reduce Federal spending for farm programs must, however, redirect benefits in a way that maximizes producer income from the marketplace. We must also monitor the support programs of our foreign competitors and their impact on world trading conditions.

As I mentioned at the outset, profitability in our industry is a function of reducing cost as well as increasing demand. In this regard, ASA is reviewing the status of research efforts to raise soybean yields and production efficiencies in various growing areas of the country. If appropriate, we plan to include a comprehensive proposal to restructure and support regional soybean research efforts as a key part of our 1995 Farm Bill proposal.

Mr. Chairman, U.S. soybean producers look forward to developing policies in the 1995 Farm Bill that reflect and enhance the competitive position of our industry. We will approach this process looking to the future rather than the past. We intend to play an active and constructive role in encouraging a farm program that benefits producers of all crops and all sectors of U.S. agriculture.

Thank you again for the opportunity to appear before this Subcommittee. I will be glad to respond to any questions you may have.

Statement of
Bruce Brumfield, President
National Cotton Council
before the
General Farm Commodities Subcommittee
of the
House Agriculture Committee
June 29, 1994

Thank you Mr. Chairman and distinguished members of the Subcommittee.

My Name is Bruce Brumfield. I serve as President of the National Cotton Council of America - the central organization of the U.S. cotton industry. I operate a diversified farming operation near Inverness, Mississippi. Cotton is my primary cash crop. I also produce soybeans and catfish.

I commend you and your colleagues for holding this early hearing on the 1995 farm bill. I think it is particularly important to assess the current status and outlook of American agriculture ahead of Congressional action on GATT implementing legislation and as an introduction to consideration of the 1995 Farm Bill.

Mr. Chairman, our reading of the U.S. agricultural situation is that it has improved under the more market oriented farm legislation of 1985 and 1990. With increased market orientation, net cash income and net farm income have generally trended upward. Real value in farm assets has stabilized after a sharp and persistent decline during the 1980s, profitability has improved and farm foreclosures are far less common.

This positive outcome is primarily the result of a farm program that is working well for U.S. agriculture. We believe, however, that this successful program will face many challenges in the months ahead--from interests as divergent as the GATT agreement, budget pressures, and environmental concerns.

With respect to the GATT agreement, we believe there is a prevailing misconception among the general public, and perhaps among some policy makers, that the agreement will reduce the need for agricultural programs in the U.S.. Nothing could be further from the truth. From our perspective, unless we keep effective farm programs in place, few of the NAFTA benefits may be realized and GATT will be damaging to U.S. agriculture.

Despite an improving deficit situation and declining farm program costs, we have no doubt there will be renewed calls for disproportionate cuts in agricultural spending. We have already heard reports that agriculture may be asked to decrease spending by up to \$5 billion as part of the GATT implementing legislation. Of the \$15 billion projected to be lost in

tariff revenues as a result of GATT, only \$800 million is attributed to agricultural goods. There is absolutely no reason for requiring agriculture to ante up as much as \$5 billion in offsets. We applaud the opposition you and your colleagues, including Mr. Emerson, Ms. Long, Mr. Kingston and Mr. Barrett, have already expressed about this notion and we urge your continued efforts to ensure the budget off-sets are not damaging to agriculture.

During the 1993 budget reconciliation debate, the National Cotton Council presented information to Congress showing that farm program spending had been reduced by two-thirds between 1986 and 1992 while total federal spending had continued to soar. The Congressional Budget Office's (CBO) February baseline shows a continuation of (1) the downward trend in ag spending and (2) the upward trend in total federal spending. [Reference Exhibits 1 and 2, appended]. It is time to look elsewhere for budget savings.

Agriculture's economic situation will be significantly affected by the changing world of environmental regulation. Anything that significantly increases operating costs will hurt our bottom line.

With this as a backdrop, I would like to detail some of these challenges and my reasons for reporting to you today that the entire cotton industry has been helped by current farm policy and is fully in support of it.

GATT AGREEMENT

Mr. Chairman, the GATT agreement will make the U.S. cotton industry far more vulnerable to foreign competition -- both from raw cotton imports and from the cotton content of textile product imports. Of the two, the most ominous threat comes from increased cotton textile imports¹ which have advanced to 47% of the U.S. textile market even with the MFA in place. Market penetration will surely escalate as the MFA is phased out.

Further, while we contemplate how much we might cut our agricultural programs to help pay for GATT, we must keep in mind that GATT will not require significant reductions in ag spending by our foreign competitors. In the case of cotton's foreign competitors, we are certain that there will be no GATT-imposed reductions in subsidies. Mr. Chairman, we think it would be devastating to American agriculture for our government to make substantial, unilateral reductions in agricultural spending just when global competition reaches a new apex under GATT.

GATT will intensify competition for U.S. cotton. The GATT agreement itself will not require any modifications in the domestic components of the U.S. cotton program, but a larger volume of imports will be allowed as our current Section 22 quotas on cotton will be

¹ During the life of the GATT agreement, the tariff rate for above-quota cotton will not drop below 14.75 cents/pound.

replaced with a tariff rate quota. However, the agreement will require significant reductions over the next six years in the level of export subsidies available to cottonseed oil under the Cottonseed Oil Assistance Program (COAP).

Mr. Chairman, we understand U.S.DA may propose in GATT implementing legislation the elimination of two special raw cotton import quotas which are a part of the cotton title of 1990 farm law. Instead, the GATT implementing legislation would authorize the President, at his discretion, to increase the below-tariff import quotas in short supply situations. We strongly object to the elimination of the two special quotas which trigger on price behavior. These special quotas were carefully crafted to open automatically when (1) the U.S. spot price rises above a specified threshold or (2) the U.S. price becomes non-competitive according to terms and conditions spelled out in law. These quotas have the approval of all segments of the cotton industry and should not be eliminated. We have other concerns with GATT implementing legislation that are reflected in previous testimony I gave to the full House Agriculture Committee.

GATT also requires textile quotas in place under the Multi-Fiber Arrangement (MFA) to be phased out over a ten-year period and duties on cotton textile imports to be reduced by an average of 12 percent. The end result will be substantially increased access to the U.S. textile market, yet U.S. mills have not been accorded equal access to a number of foreign markets.

With the potential of larger textile and raw cotton imports, now is not the time to make substantial, unilateral cuts in price support programs nor in programs currently in place to help boost foreign demand for U.S. agricultural products. Therefore, as debate ensues on the 1995 farm bill, we urge you to oppose damaging increases in non-payment acres as well as efforts to require the idling of more land as a condition of program participation. We urge you to resist efforts to further restrict eligibility for program benefits. And we request that every effort be made to retain well-funded market development and export credit programs which will be more important than ever under GATT's new, liberalized rules for international trade.

Mr. Chairman we appreciate your efforts to ensure that EEP, DEIP, COAP and SOAP² can continue to function effectively under the new GATT. We also strongly support efforts to ensure that agriculture's baseline is protected to the extent possible and that funds are fully utilized in so-called green-box activities to develop and defend export markets.

² Export Enhancement Program (EEP) Dairy Export Incentive Program (DEIP), Cottonseed Oil Assistance Program (COAP), and Sunflower Oil Assistance Program (SOAP).

GENERAL FARM PROGRAM PROVISIONS

Mr. Chairman, we need the continuation of strong, market oriented farm programs. This means resisting the temptation to rely on U.S. supply management schemes for budget reductions. Such schemes are, at best, ineffective. Worse yet, they sacrifice the U.S. agricultural production base along with our processing and handling infrastructure to the foreign world.

While we strongly support continuation of the cotton title of the farm legislation, there are important elements of the common provisions which will impact the operation of our program. First and foremost, Mr. Chairman, our number one priority is opposition to any further limits on benefits which might be imposed by means-testing or any other measures to restrict benefits based on size, management organization or income.

Mr. Chairman, I know my colleagues from the other organizations may favor additional cropping flexibility. Cotton, as the only commodity with a net gain in acreage under flex acres may have a unique concern about increasing flexibility. However, I'm sure we can all agree that an increase in unpaid flex acres would not be a popular choice among farmers.

To quickly review our other interests: we oppose cross and off-setting compliance; we support some equitable adjustment in payment yield calculations; we support continuation of the 50-85 program option; we support non-market disruption alternative uses of idled acres under the annual acreage reduction program; and, we continue to have interest in a program like the targeted option program (TOP) that would allow individual farms to make cropping decisions.

We applaud the interest in risk management and export promotion programs. And, we remain skeptical of wholesale modifications like decoupling, 100% base flexibility and green payments.

Mr. Chairman, one of the most significant decisions that needs to be made is the future status of the CRP. We have expressed support for the Secretary to utilize his discretionary authority to revise and extend contracts. We support an extension that allows the largest possible number of contracts to be extended at the producer's option. This program has generated important environmental and economic benefits. We also need to make every effort to extend the budget baseline to preserve our options.

The ultimate decision on CRP will clearly have important implications for the common provisions and the commodity titles. For example, if the contracts are not extended, cotton will need to have access to a 0-85 program option and we will want to ensure that our ARP will not be automatically increased to off-set increased production.

Obviously, I am not the first, but allow me to warn you that others have designs on the CRP funds and plans for a revised program.

THE U.S. COTTON SITUATION AND PROGRAM COSTS

Mr. Chairman, I am pleased to report that the U.S. cotton economy is much improved over what it was prior to implementation of the marketing loan in 1985 farm legislation. In its May 1994 report, USDA estimated that the offtake of U.S. cotton this season will reach 17.3 million bales...the highest level since 1926. And the initial projection for the 1994-95 season is still higher, at 17 ½ million bales. This projection includes a domestic consumption forecast of 10 ½ million bales, matching the post World War II high reached in 1950.

Impressive as these offtake numbers are, they are even more striking when considered in light of our industry's economic situation prior to implementation of the marketing loan. For six years immediately prior to the marketing loan legislation, our total offtake had averaged just 11.2 million bales. Twice in those six years our carryover stocks were 73% and 111% of offtake and production had to be tightly reduced to work off stocks.

Compare that experience with our record over the most recent five years, when our offtake has averaged 16.3 million bales. [Reference, Exhibit 3, appended] If USDA's projections for this season and the next are realized we will have established a new benchmark for U.S. cotton demand, an offtake expansion of more than 6 million bales under the marketing loan.

Not only has U.S. offtake of cotton grown by more than 50% under the marketing loan, but there also has been broad-based improvement in profitability across the Belt in every segment of our industry. That, in a nutshell, is why leaders from the seven segments of the cotton industry encourage this subcommittee to do everything possible to retain its principles in 1995 farm law.

With budget considerations more than anything else driving 1995 farm bill deliberations, we are pleased that cotton's program costs have fallen dramatically. This decrease in costs follows a sharp run-up stemming from the unprecedented global disorder created in fiscal years 1992, 1993 and 1994 by the breakup of the Soviet Union. Mr. Chairman, we submitted data to Congress last year -- which was generally corroborated by findings of USDA and the International Cotton Advisory Committee -- showing that the economic upheaval caused by the dissolution of the Soviet Union added more than a billion dollars to U.S. cotton's program cost in the 1993 fiscal year, and nearly as much the year before and the year after.

Five million bales of Central Asian cotton, formerly consumed in Russia, Ukraine and other Eastern Bloc countries, were dumped on the world market in each of the last three years at highly depressed prices. Except for the marketing loan, U.S. cotton would have been priced out of the world market and the result would have been the kind of stock accumulations we experienced in the "pre-marketing loan" years of 1983 and 1985.

It is a tribute to the marketing loan that these devastating consequences were averted when the republics of the former Soviet Union dumped their cotton on the world market and drove

prices down an estimated 17 cents a pound in 1992. While the short term U.S. budget impact was significant, the large expenditures were short term and should be seen as a prudent investment in the long-term economic health of a vital segment of American agriculture.

Cotton program costs have now returned to very reasonable levels. USDA estimates fiscal year 1995 cost to total just over \$500 million dollars. At this point, there is no reason to expect costs in the final year of 1990 farm legislation to be any higher than that. This would put the average cost of the marketing-loan-based cotton program (throughout the terms of 1985 and 1990 farm legislation) below the average cost under the act of 1981. Moreover, CBO's latest baseline estimates for the first three years of 1995 farm legislation (i.e., for the 1997 through 1999 fiscal years) show cotton program costs averaging \$1 billion, compared with an average of \$1.3 billion under the pre marketing loan act of 1981. [Reference, Exhibit 4, appended]³

On balance, Mr. Chairman, our program costs have fallen while our industry has expanded dramatically. That seems highly relevant given cotton's status as the number one generator of revenue and jobs among U.S. agricultural commodities.

Mr. Chairman, if I may reiterate an earlier point, the conclusion of the GATT negotiations will signal the beginning of even more intense competition as countries struggle to maintain or gain market share under the new trading rules. Unless we are able to maintain an effective cotton program, not only will our raw cotton exports dwindle under the new GATT, but our domestic market will be vulnerable to a significant quantity of imports for the first time since Section 22 became a part of U.S. farm law in the 1930s.

CONCLUSION

In closing, Mr. Chairman, I would observe that agricultural trade is one of the very few areas where we maintain a positive trade balance with the rest of the world. We are competing in a global market environment that is replete with subsidies...an environment that will be little changed after implementation of GATT. We have managed a trade surplus because we have had farm programs that helped to level the world playing field. We will maintain our trade surplus, along with the jobs it creates, only if we keep sensible farm programs that are keyed to the nature of our competition. We will lose the trade surplus if budget myopia is allowed to dismantle U.S. agriculture's only hope for evenhanded competition in the international arena.

³ We would expect CBO's next baseline projections to reflect still lower costs for the cotton program.

We have work to do as we craft the 1995 farm bill. I am sure that with your leadership and the work of the members of this subcommittee, we can repeat our past successes and meet the challenges ahead.

(Attachments follow:)

Appendix

Exhibit 1

Total Farm Spending
Actual & Trend

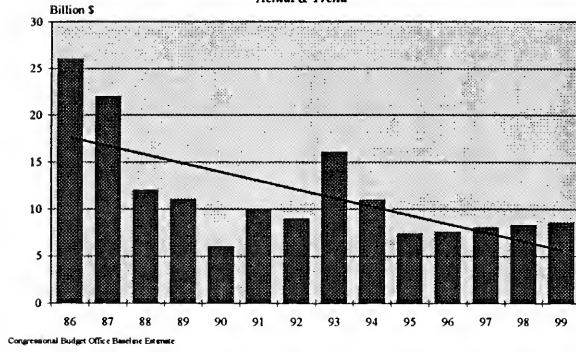
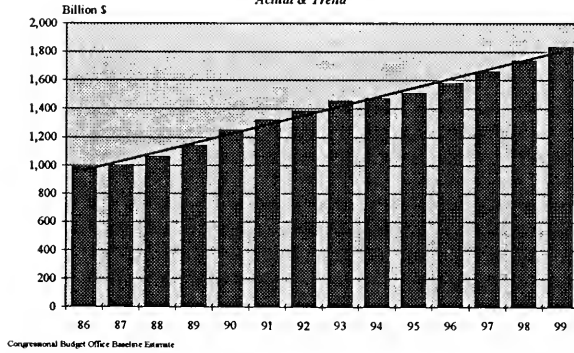


Exhibit 2

Total Federal Spending
Actual & Trend



Appendix

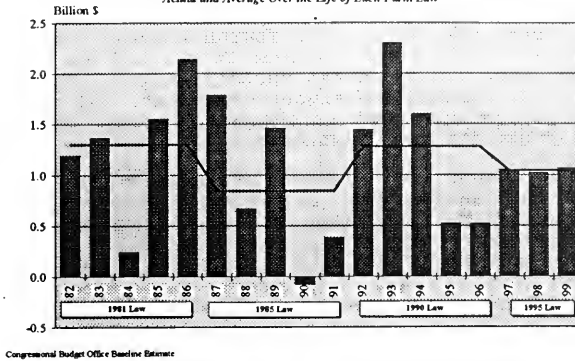
Exhibit 3

PRE MARKETING LOAN		POST MARKETING LOAN	
Avg. Offtake	= 11.25 M/Bales	Avg. Offtake	= 16.70 M/Bales
Mill Use	= 5.75 M/Bales	Mill Use	= 10.00 M/Bales
Exports	= 5.50 M/Bales	Exports	= 6.70 M/Bales
1985 Offtake	= 8.40 M/Bales	1994 Offtake	= 17.50 M/Bales
Widespread Bankruptcies		Improved Profitability	

Exhibit 4

Cotton Program Costs

Actual and Average Over the Life of Each Farm Law



Statement of Carl Schwensen
National Association of Wheat Growers
before the
Subcommittee on General Farm Commodities
of the
House Committee on Agriculture
on the
Agricultural Outlook
June 29, 1994

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear today to review the U.S. wheat situation, and the possible affects budget, trade and 1995 Farm Bill considerations could have on U.S. wheat growers. I am Carl Schwensen, executive vice president of the National Association of Wheat Growers which is headquartered in Washington, D.C.

Mr. Chairman, the U.S. is the fourth largest wheat producing country, following China, the European Union, and the Commonwealth of Independent States. It is the world's largest wheat exporter. Accordingly, U.S. farmers are export-dependent, and at least one-half of each year's crop must be shipped overseas to avoid stock buildups and price depression at home.

Grains and feeds and oilseeds and products account for 50 percent of all U.S. agricultural export trade, and wheat exports at \$5 billion account for more than 20 percent of these earnings. Wheat and other bulk agricultural commodities are the second largest contributors to the U.S. merchandise trade balance, following only foreign sales of aircraft, ships and trains. Clearly, wheat is a consistent work-horse performer in the U.S. economy.

The Wheat Situation

In 1994-95, the U.S. wheat situation is expected to unfold much like that of last year. Production is projected at 2.36 million bushels, two percent less than 1993-94 output. The 1994 winter wheat crop, which was planted in the fall of 1993, is expected to decline 6 percent because of fewer harvested acres and lower yields. 1994 spring wheat output is expected to increase 11 percent, largely due to an 18 percent jump in durum area attributed to higher prices last season. Durum is the class of spring-planted wheat that is used especially for pasta-making.

Total wheat utilization (domestic and export) is projected at 2.38 billion bushels, about 3.5 percent lower than last year due to projected reductions in exports and domestic consumption of wheat

for feed. Imports of wheat -- from Canada -- will continue to be high at an estimated 80 million bushels, but less than the record 1993-94 level of 95 million bushels. U.S. wheat stocks at the end of the season will increase 10 percent over 1993-94 to a projected 615 million bushels. The price received by farmers is estimated by USDA to average \$2.75-3.35 per bushel, compared to \$3.20 per bushel in the previous season.

Budget Constraints and Trade Agreements

As with other farm program commodities, budget constraints have generated substantial losses in benefits to wheat farmers. Most of the income loss has come from an increase in non-payment or "triple-base" acres. The triple-base is now at 15 percent, and I want to remind the subcommittee that wheat farmers, unlike many other agricultural producers, have few planting options other than wheat. This absence of cropping flexibility means that wheat growers do not have the opportunities available to others to make use of planting flexibility to offset limited farm program "decoupling".

Many are aware that the U.S. wheat industry has been committed to the establishment of fair trading terms both in North America and world-wide. Global accomplishments under the results of the Uruguay Round of GATT negotiations have been fairly modest, while there has been little progress towards basic reform in North America.

Under the Uruguay Round results, the U.S. will be required to cap its Export Enhancement Program (EEP) volumes and values at specific base levels and to reduce these amounts by 21 percent in terms of volume and 36 percent in terms of value from levels maintained in 1992. In the case of wheat, when fully implemented, the new GATT agreement will have curtailed European wheat subsidies by an amount roughly equivalent to a poor wheat crop in Italy. Moreover, the GATT accord will do nothing to discipline the unfair practices of monopolistic state trading agencies or other countries who employ predatory pricing practices to enhance world market share.

The NAWG believes that it is imperative that modifications are made in EEP authorities in GATT implementing legislation to conform the program to the mandates and terms of the Uruguay Round agreement. Specifically, (1) EEP must be redefined to focus on foreign market development and export expansion. The statutory definition of EEP as a "response to unfair trade practices" has restricted use of the program to countries where U.S. exports have been displaced by the European Union's subsidy programs. Now that EEP is no longer needed as a trade policy tool, there is a vital role for EEP in developing foreign markets and expanding exports. The purpose will allow the U.S. to compete more effectively and on near equal terms with all exporting countries, especially those

left undisciplined by the Uruguay Round commitments on export subsidies.

(2) EEP operation must be broadened to include all foreign markets and streamlined to increase effectiveness. Targeting of EEP solely against the unfair trade practices of Europe has prevented competition in key markets, reducing export volume and increasing costs. Moreover, targeting has required approval by other agencies, a time-consuming and often public process that allows other exporting countries to undercut U.S. prices and complete export sales. Opening EEP up to all markets would eliminate the need for inter-agency approval, allowing more efficient use of funds available for the program.

(3) EEP funding must be made available and required to be used to the full extent permitted by GATT. The amount of outlays permitted to be used for export subsidy programs during each year of the implementation period is specifically identified by commodity-sector in the GATT agreement. In order to maximize U.S. competitiveness, funding provided for these programs in each fiscal year must equal or exceed the total amount permitted to be used. In addition, all funds made available must be required to be obligated.

(4) Outlay reductions in EEP required during the GATT implementation period must be redirected to fund "green box" agricultural export programs. The need for government assistance in maintaining the competitiveness of U.S. agricultural exports will not decline as EEP outlays are reduced. Many of the trade practices of other exporting countries are not subject to GATT discipline. The role of export promotion activities, in particular the foreign market development program, and food assistance programs in supporting private sector efforts to access foreign markets will only become more important as U.S. export subsidies are phased down. The NAWG strongly supports a requirement in the GATT implementing legislation that funds equivalent to required reductions in EEP and other subsidy programs be shifted to export development activities not subject to reduction under GATT.

Earlier this year President Clinton directed the U.S. International Trade Commission (ITC) to conduct a Section 22 investigation of Canadian wheat imports which the Agriculture Department and the NAWG believe to materially interfering with the operation of the U.S. wheat program by increasing program costs through higher deficiency payments and loan activities. For 1991/92 through 1994/95, these added costs will total \$682 million. Moreover, for 1994/95, imports are expected to increase the cost of the USDA wheat program by an estimated \$228 million, 15 percent of the projected cost of the entire wheat program and equivalent to over 85 percent of the annual budget savings from farm commodity programs agreed to in the Omnibus Budget Reconciliation Act of 1990 (OBRA). These additional outlays and any additional costs incurred will be paid by the U.S. taxpayer.

Congressional Underfunding of EEP

A major problem now confronts wheat growers and producers of other commodities which have eligible for Export Enhancement Program to combat predatory pricing and the fiercely competitive terms of many of our competitors.

Agricultural appropriations bills now pending in Congress substantially fail to provide the funding necessary to continue the operations of the EEP program between now and the implementation of the Uruguay Round agreement. The House has passed legislation (HR 4554) setting a cap on FY'95 EEP funding at \$850 million. Similarly, the Senate Appropriations Committee has reported a bill which would establish the same cap.

The proposed FY'95 funding level for EEP is \$850 million. According to our analysis, FY'94 outlays for EEP on June 24, 1994 amounted to \$840 million, and there is still one full quarter of EEP activity to be completed. We estimate that FY'94 EEP outlays will be in the neighborhood of \$1.1 billion, or \$250 less than provided for in House and Senate appropriations bills.

Appropriators have apparently assumed that the GATT results would be implemented on January 1, 1995. Our view, however, is that implementation will more than likely come 6 months later. Consequently, the U.S. is in the process of underfunding the EEP during the interim period which occurs before our GATT reduction obligations come into force. Stated differently, the EEP funding cap being set by the Congress will not allow the program to operate at anything comparable to this year's level, and it would appear that FY'95 funding will be completely exhausted before any new GATT is operative. Obviously, this situation will negatively affect U.S. wheat producers beyond the USDA's current estimates.

In closing, Mr. Chairman, I want to again thank you for inviting the NAWG to present testimony to your Subcommittee on the agricultural outlook. As I have stated, we expect the U.S. wheat situation to continue to be difficult, and we urge the Subcommittee to maintain its oversight of changing wheat trade conditions and the impact of budget restraints on domestic and export assistance programs.

I will be pleased to respond to questions from the Subcommittee at the appropriate time. Thank you.

(Attachment follows:)

EEP Expenditures by Month

1,000 dollars

\$250,000

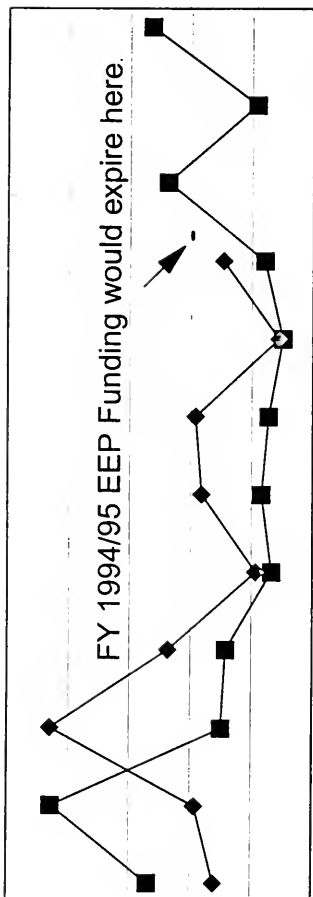
\$200,000

\$150,000

\$100,000

\$50,000

\$0



	October	November	December	January	February	March	April	May	June	July	August	September
FY 1992/93	\$134,635	\$214,132	\$74,826	\$71,099	\$33,501	\$41,755	\$36,182	\$24,496	\$39,485	\$119,059	\$45,982	\$132,126
FY 1993/94	\$80,548	\$96,437	\$214,899	\$118,360	\$46,473	\$91,018	\$96,091	\$27,632	\$73,478			

Total spent in FY 1992/93 = \$967,277,922
 Expenditures in FY 1993/94 as of June 23, 1994,
 = \$835,427,436

Testimony of
The U.S. Rice Producers' Group
Before the
General Farm Commodities Subcommittee
House Committee on Agriculture
June 29, 1994

My name is Robert M. Bor. I am Washington Counsel for the U.S. Rice Producers' Group ("USRPG") and am pleased to appear before you today to testify on the general economic outlook for the rice industry in the light of budget constraints, the pending trade agreement, and the upcoming 1995 Farm Bill.

The U.S. Rice Producers' Group is a national organization that represents rice producers in the five principal rice producing States of Arkansas, California, Louisiana, Mississippi, and Texas.

Let me begin my testimony by stating that, in general, the USRPG supports continuation of the current program. It has done well for the entire rice industry and for the national economy, and with the Uruguay Round Agreements in place program costs should decrease over the next five years to meet with any budget constraints.

The program is sustaining rice producers in this country. Rice production is a high cost crop because it is an irrigated crop and often depends on costly supplies of water, and on electricity and gas to operate pumps to move the water where needed. As a result, producer margins are very limited. Producers understand the need for them to reduce costs and are investing large sums of their own money to this end so that they can become even more efficient than they are today, but they need the program as a transition.

It is now nine years after enactment of the marketing loan program that set new directions for the rice industry. As you might recall in 1985 the program was in trouble, with loan rates above market prices, and most rice under loan being forfeited to Commodity Credit Corporation. The net result was that the Government had become the principal marketer of rice.

All that was changed with enactment of the marketing loan program which gave producers the ability to redeem their loan at the world market price--

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 U.S. Rice Producers' Group
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thereby stimulating commercial marketing and reducing the Government's role in the market. A target price was set at \$11.90 per cwt. with provision for deficiency payments at a rate equal to the difference between the target price and the higher of the loan rate or the average market price. This rate was applied to the historical yield on the acreage planted within the permitted acreage under the acreage reduction program.

These benefits have been eroded in time. The target price has since been reduced from \$11.90 to \$10.71, the acres on which payments are made has likewise been reduced. Today 15% of the permitted acres is no longer eligible for deficiency payments. In addition, yields have been increased, but deficiency payments are still based upon historical and not current yields.

At the same time, production costs have been increasing. In particular costs have been high in Texas leading to a reduction in rice production in that State. A report just released by Economic Research Service on production costs for 1992 shows a general increase in farm expenses. For example, average U.S. rice total cash expenses have increased from \$361.60 per acre in 1988 to \$386.21 per acre in 1992; while total economic costs have increased from \$541.58 per acre in 1988 to \$584.64 per acre in 1992. Taking all economic costs into consideration, ERS estimates that the residual returns to management and risk in 1992 after taking total economic costs into account was only \$7.29 per acre in 1992. Small wonder that in the current year 94% of the total rice base in the United States is enrolled in the program--a higher percent than for any other crop.

Rice production has benefitted the national economy in many different ways. As a result of the program, domestic use has been increasing and rice has found itself on the table in many different forms- as table rice, as breakfast cereal, as a mixture in many different foods, and in the form of beer. It also has been exported in many different foreign markets and in the current marketing year, exports are expected to total 81 million cwt. The U.S. is one of the major exporting countries exporting approximately 2.6 million metric tons out of total world exports of 15.4 million metric tons. Thailand is the world's largest exporter of rice and recently Viet Nam has become another major rice exporting nation.

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The domestic and foreign utilization of U.S. produced rice has meant jobs in the United States. It has sustained the many industries that rely entirely on rice production--the rice drying industry, the rice warehousing industry, and importantly the rice milling industry. Beyond that it has meant an expansion of business for the many industries that provide inputs for rice production, as well as the transportation industry, the domestic manufacturers of rice products, the banking industry, and many others. In short it has added importantly to the gross national product and is one of the few products that produces a positive balance of trade for the United States.

A recent positive development has been in the results of the Uruguay Round which should open new markets for exports of U.S. rice. It has been projected by USDA that U.S. market prices should increase 11-15 percent above baseline projections by 2005, with a much greater increase in medium grain prices than in long grain prices, but both should rise significantly. As producer revenues will increase, it should cause a substantial decline in deficiency payments.

It is for that reason that we see little sense to penalize agriculture for the Uruguay Round. The proposed \$3.1 billion cut in program benefits for the commodity programs to help offset reductions in tariff revenues makes little sense. The impact will be to force rice producers out of business and lose to the rice industry the benefits of the Agreement that have been advertised by the Administration.

There are other pressures on the rice industry as we look ahead. For example, we understand that GAO has just released a report commissioned by Congressman Armey that is highly critical of the rice program. We understand that the subcommittee intends hold a hearing on the report in the near future at which time we will have an opportunity to comment on it in detail.

What will happen if the rice program is eliminated in its entirety. A recent report of FAPRI estimates that rice acreage would be reduced by 25%--Southern plains plantings should fall by more than 50 percent from the baseline. Rice exports should fall by 30 to 40 percent with other countries expected to gain

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market share as the U.S. reduces its presence in world market. The impact would be particularly severe in the State of Texas, where FAPRI estimated that without a farm program for rice, the farms with no initial debt will likely be insolvent by the end of 1997. Given the specialization of many rice mills, the impacts in the milling industry would be substantial. Similar impacts would be felt by the other industries which depend on rice production for a livelihood. We are of the view that this report understates the economic impact in the United States if the program should be lost.

What we are saying is that we need your help to stay in business. The survival of the rice industry benefits America--and with the Uruguay Round in place, program costs should be reduced if the program remains intact without change as we recommend.

The USRPG is opposed to the proposal advocated by the Iowa Farm Bureau and others to supplant the current program with an insurance program based on a percentage of the average market price during a past period. U.S. domestic market prices are determined by prices in the world market since the United States is not the dominant exporter of rice. Because of this factor and because of the high cost of production, the rice industry could not survive on such a system which provides protection at a price well below the cost of production.

You should be aware that the rice industry is not resting on its laurels. It is working hard on research efforts to reduce the cost of inputs, including the reduction of pesticides with new biological control methods, genetic gene transfers in varietal development and other agronomic practices. The five major rice growing States are currently dedicating in excess of ten million dollars annually to rice research. Over one-half of this amount is coming directly from grower check off programs.

Agricultural producers of food and fiber have traditionally been strong conservationists of soil, water, and wildlife. In particular, rice is a crop that is particularly friendly and compatible with the environment. Rice is generally grown in low lying areas adjacent to some of our most productive estuaries where the

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rice industry has coexisted safely with the seafood industry for years. In addition, annually, the U.S. rice industry provides over two million acres of habitat for migratory waterfowl and other wildlife. To add to these efforts, the U.S. rice industry just organized a national waterfowl habitat program to be carried out with the assistance of the National Fish and Wildlife Foundation and the Fish and Wildlife Service.

Thank you, again, Mr. Chairman, for the opportunity to testify today. I would be pleased to respond to any questions.



**Statement by Mr. Bill Kubecka
Vice President for Legislation
National Grain Sorghum Producers Association**

**before the
Subcommittee on General Farm Commodities
House Committee on Agriculture**

June 29, 1994

Mr. Chairman, members of the subcommittee, it is a pleasure and an privilege to appear before you today to discuss the outlook for grain sorghum producers and the dynamic factors that will affect their well-being in the years to come.

My name is Bill Kubecka. I am a part-time veterinarian and full-time farmer. I grow 200 acres of rice, 1200 acres of sorghum and 750 acres cotton on my farm near Palacios, Texas. I speak from experience when I say that sorghum producers appreciate all that you, Mr. Chairman, and the members of this subcommittee are doing to promote the interests of U.S. agriculture. During the next five years, U.S. producers will face more changes than they have at perhaps any time in production agriculture. Leading the way to change will be the North American Free Trade Agreement and the eventual conclusion of the General Agreement on Tariffs and Trade.

While the American farmer is first and foremost the caretaker of his land—and I might add a darn good one at that—we can provide him with even more options to environmental improvements. After all, contrary to what some individuals and groups may think, the American farmer is genuinely interested in taking the best care that he can afford of his farm.

Opportunities that I will submit to the subcommittee requires a farm bill that:

- a) enables farmers to truly plant for the market,
- b) implements a uniform feed grains program, and
- c) enhances environmental practices.

Mr. Chairman, the National Grain Sorghum Producers has developed a 1995 farm bill proposal that accomplishes each of these goals and saves the government money. With inevitable change before us, we have appropriately constructed a proposal for 1995 entitled the Farm “**Transition**” Bill.

Transition: Market-Driven Farm Economy

If farmers are given the opportunity to produce for the market, deficiency payments will be reduced. Market demand will dictate which crops are the most profitable to produce. Crops that are under-planted will increase in price because of smaller supply. The probability of triggering loan deficiency payments and marketing loans will be reduced.



New market access provided by the NAFTA and GATT will challenge exporters to seek and hold new customers. This program would assure a steady and constant supply of commodities to meet new market opportunities.

Uniform Feed Grains Program

The National Grain Sorghum Producers has conducted extensive studies and the results have proven that, pound for pound, sorghum and corn have equal feed values (see pages 9 -12); therefore, we recommend using bushel weights to calculate the target price. If this plan is adopted, the loan rate and target price for sorghum would be determined using the same formula that established the barley loan and target price. (see page 7)

EXAMPLE:

Corn 56 lbs/bu = \$2.75/bu
 Sorghum 56 lbs/bu = \$2.75/bu (target price for sorghum is \$2.61)
 Barley 48 lbs/bu = $48/56 \times 2.75 = \$2.36$. (1990 farm bill target price for barley is \$2.36)

USDA indirectly sets the base for cash markets by establishing the wheat and feed grain loan and target price. Buyers adopt the same "spread" when offering cash price bids to producers. These prices are then reported to USDA, and ASCS establishes a "Posted County Price" using this "distorted spread" as part of the equation. Developing a uniform loan and target price for feed grains would eliminate this distortion. (see pages 13-14)

An analysis by Texas A&M University concluded that this program will reduce government payments by \$41 million to \$72 million annually, depending on the actual cash relationship between feed grains. (see pages 4-6)

Optional ARP Program

The Secretary of Agriculture will have the option to establish an acreage reduction or a diverted acreage program if needed. This program will provide producers the option to interchange program crops and non-program crops (including alfalfa) on established program crop acreage bases. Cross-compliance between crops would be eliminated. A producer will be allowed to plant any program crop or agricultural commodity, except fruits and vegetables, on any base while maintaining a base history. This program will parallel the current corn-sorghum option where producers receive deficiency payments on the historical crop base.

Transition: NAFTA and GATT

Last summer, agricultural groups worked hard to help ensure the passage of NAFTA. We also have been supportive of opening new markets through a GATT, as long as the agreement is not made at our expense. Farmers have always said that they prefer to get their paycheck from the marketplace and not from the mailbox. If we gear our farm program to allow farmers to take advantage of new market opportunities and to put forth their best possible effort in implementing environmental practices while providing the consumer with the lowest priced, safest food supply in the world, I don't think the taxpayer or our adversaries can justifiably object.

Yet to be seen is whether NAFTA and GATT will open the new markets we hope for. As we witnessed this summer, there appears to be wrinkles to iron out. The importation of Canadian wheat and barley has been a hot issue and there will undoubtedly be others. Until this global trading



system begins to settle down, a safety net for our U.S. farmers is certainly reasonable. Additional new domestic market development opportunities will be created. The potential exists for value-added for our feed grains through an expanded livestock production and red meat exportation. (see pages 15-17)

The year 2000 may bring about a completely new concept in farm policy. To get to that point, NGSP recommends a proposal that will provide a safety net for farmers and will ensure a safe, dependable supply of food and fiber for American consumers during this transition period.

Transition: Improved Environmental Opportunities

Allowing farmers to rotate and interchange crops will be good for the environment and for conservation. Conservation plans will be easier to follow—residue requirements will be more achievable—fewer pesticides and less fertilizer will be used as the flexibility to rotate cropping patterns is provided. (see page 8)

This program will also allow farmers to produce water-conserving crops such as sorghum, minor oilseeds, sunflowers, etc., in areas where the aquifers are depleting.

Transition: USDA Reorganization

This proposal meets the reorganization, streamlining and paper reduction goals of USDA. County ASCS offices will be more efficient. Less time will be needed for program sign-up and compliance requirement checks. Fewer forms will be needed for producers who have multiple bases on their farm. Producers will be able to combine multiple base acres and will not be affected if they over-plant or under-plant a specific commodity base. ASCS will make only one tolerance check—on the total base acres within the farm.

Mr. Chairman, using this type of program to the year 2000 is a win-win situation for taxpayers, consumers, exporters, commodity processors and farmers alike.

Thank you. I will be glad to answer any questions you may have.

(Attachments follow:)



EXPECTED NATIONAL ECONOMIC IMPACT OF SETTING A UNIFORM FARM PROGRAM FOR FEED GRAINS

W. I. Nayda, B. A. McCarl and B. R., Eddleman
(Contact: Dr. Bobby Eddleman, Resident Director,
Texas A&M Research and Extension Center,
Corpus Christi, Texas. Phone 512-265-9201)

Results from recent animal nutrition studies indicate that properly processed grain sorghum is equivalent to corn as a feed for livestock in terms of nutrition and feeding efficiency. With sorghum as efficient as corn as a feed, there is a basis for setting the sorghum target price and loan rate equal to corn. We evaluated the expected national economic impact of raising the sorghum target price and loan rate to the levels of corn.

A multi-commodity agricultural sector model (ASM) structured as a price-endogenous, mathematical programming model was used for the analysis. ASM was calibrated for 1990 cropping patterns, supply and demand conditions, production and commodity prices under 1991 farm commodity program provisions. The 1991 farm program provisions included a loan rate of \$1.62/bu and target price of \$2.75/bu for corn compared to a loan rate of \$1.54/bu and target price of \$2.61/bu for sorghum. A base solution was developed for the 1991 program provisions and used for comparison with two scenarios wherein the sorghum loan rate and target price were set equal to corn with a 20 cent/bu spread between corn and sorghum cash prices (worst case) and with the cash spread between corn and sorghum allowed to come together (best case). In the analysis, base acres were constrained so that any increased acreage of a crop above the historical regional base was without government program benefits.

ASM is a more disaggregated, enhanced version of the USMP model used by the USDA. The ASM simulates the agricultural sector under a given set of supply and demand conditions generating estimates of agricultural prices, quantities produced, consumers' and producers' surplus, exports and imports. The objective function of the ASM is the nonlinear sum of the area under domestic and export curves after subtracting the variable cost of production and the summed area under the factor and import supply curves. ASM constraints involve market supply-demand balances and resource limitations. The interrelationships among commodities both in consumption and production and across different geographic regions are simultaneously incorporated. ASM disaggregated the U.S. into 10 large production regions which are further delineated into 63 sub-regions for endowment of land, labor and water. There are 32 primary agricultural commodities and 29 secondary products that can be processed from the primary commodities in the model. The farm program features in ASM include acreage set-aside, target prices, CCC loans, marketing loans, generic Payment-In-Kind, 50/92, 0/92, acreage diversion, deficiency payments and slippage.



The expected national economic impacts of setting a uniform farm program for feed grains can be summarized generally by the following results:

- Under the "best case scenario," where the cash price spread between corn and sorghum could narrow, total government payments for farm programs would be expected to decline by an estimated \$72 million annually.
- Under the "worst case scenario" with a 20 cent/bu cash price spread between corn and sorghum, annual government payments for farm programs would decrease by an estimated \$42 million.
- Sorghum would replace some corn and wheat in acreage and production.
- Sorghum would replace much of the wheat used in livestock feeds.
- Total irrigation water use would be expected to decrease by some 148 thousand acre feet annually, or 0.07%, as irrigated sorghum replaced irrigated corn and wheat.
- Setting sorghum loan rate and target price equal to corn would induce only minor economic welfare changes in terms of consumers' and producers' surplus, while total annual government program payments would be reduced.



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FOOD, AGRICULTURE, CONSERVATION AND TRADE ACT OF 1990

TITLE IV - FEED GRAINS

LOAN RATES:

Section 105B—(a) Loans and Purchases—(6) Other Feed Grains (page 47)

The Secretary shall make available to producers loans and purchases for each of the 1991 through 1995 crops of grain sorghums, barley, oats and rye, respectively, produced on the farm at such level as the Secretary determines is fair and reasonable in relation to the level that loans and purchases are made available for corn, taking into consideration the feeding value of the commodity in relation to corn and other factors specified in section 401(b).

DEFICIENCY PAYMENTS:

Section 105B—(c) Payments—(1) Deficiency Payments—(B) Payment Rate—(iii) Minimum Established Prices—(page 48)

(I) CORN - The established price for corn shall be not less than \$2.75 per bushel for each of the 1991 through the 1995 crops of corn.

(III) GRAIN SORGHUMS - The established price for each of the 1991 through 1995 crops of grain sorghum shall not be less than \$2.61 per bushel.

(IV) BARLEY

(aa) IN GENERAL - The established price for barley shall be such price as the Secretary determines is fair and reasonable in relation to the established price for corn, taking into consideration the various feed and food uses for barley. The established price for barley shall not be less than 85.8 percent of the established price of corn.

(bb) BARLEY CALCULATIONS - The Secretary shall for purposes of determining the payment rate for barley under clause (i)(1) and subparagraphs (D)(ii) use the national weighted average market price received by producers of barley sold primarily for feed purposes.

EXAMPLE 1:

Corn	56 lbs/bu = \$2.75/bu
Sorghum	56 lbs/bu = \$2.75/bu (target price for sorghum is \$2.61)
Barley	48 lbs/bu = $48/56 \times 2.75 = \$2.36$. (1990 farm bill target price for barley is \$2.36)

EXAMPLE 2:

Posted County Price (PCP): USDA/ASCS offices post the loan rates for all commodities eligible for price support. Under this system, the base spread per bushel is established between corn and sorghum, creating an artificial discount to sorghum. Market prices tends to reflect the posted county price rather than the actual feeding value of sorghum.

Helps boost cotton yields

Grain sorghum in rotation offers bonus

By Greg Smith
Extension Agronomist
Mississippi County, Ark.

MOST MID-SOUTH cotton growers did not have a banner production year in 1993. In fact, some may be considering a reduction in cotton acreage for this year as a result of the low yields. Those who are among this group may want to give some thought to growing

grain sorghum as a rotational crop. Grain sorghum fits well into many rotational schemes with other crops such as cotton, rice, soybean and wheat. Just as with field corn, an increase in the amount of organic matter in the soil will be detected following grain sorghum. This is the result of the large amount of organic residue left behind after harvesting. This residue is largely responsible for the increased yields that can be

expected from the next year's crop. Research at Keiser, Ark., confirms cotton yields can be increased substantially with a grain sorghum rotation. Rotating sorghum with cotton can also lead to reduced dependence on chemicals for pest management. Planting the crop after many successive years of cotton produces a non-host crop for many insects such as boll weevils or root knot nematodes which have developed into a large

problem in northeast Arkansas. Excluding a resistant variety of soybeans, grain sorghum is likely the best rotational crop for fields infested with root knot nematodes. Crop rotation as a method of integrated pest management will become more important as new federal laws to protect endangered species are implemented. More effective herbicide options to control tough weeds like morningglories and cocklebur become available to growers when grain sorghum is planted behind cotton. Two chemicals, atrazine and 2,4-D, are very effective for the control of these weeds in sorghum. After two years of growing grain sorghum, the population of cocklebur and morningglory can be drastically reduced.

Another system can be to plant 20 to 30 days after the average date of the last killing frost, mor growers may want to begin planting after five consecutive days with daytime temperatures above 70 degrees. When planted early, yields of 5,000 to 7,000 pounds per acre are frequently reported in Arkansas. Top yields are about 8,000 pounds for the state. The later planting dates are usually for sorghum planted behind wheat or oats. Frequently yields are considerably lower when planted after small grains with typical yields at 2,000 to 4,000 pounds. Occasionally, yields of 4,000 to 5,000 pounds per acre are reported with good management and moisture.

If you choose to grow sorghum for this year, the optimum planting date is nearly upon us. Generally, the planting period is divided into early and late. The early period is March 20 to May 10, and the late period is June 10 to July 10. The actual planting date will vary depending on the location. Three systems of determining the optimum planting date may be used according to Dr. Nathan McKinney, agronomist for the Cooperative Extension Service, University of Arkansas. One is to plant when the morning soil temperature is 66 degrees at two inches. Planting under this scheme can begin at 60 degrees if the weather forecast calls for clear warm days.

Generally, the planting period is divided into early and late. The early period is March 20 to May 10, and the late period is June 10 to July 10. The actual planting date will vary depending on the location.

The 1994 Arkansas Grain Sorghum Production Handbook contains detailed information on all areas of production. Contact the Extension office for a copy of this information.



SUMMARY OF 6 STUDIES: RESEARCH SHOWS STEAM-FLAKED SORGHUM BOOSTS DAIRY PROFITS

Dr. J.T. Huber, University of Arizona (602) 621-7623.

Results from recent dairy research shows that dairymen can **increase their profits as much as 65 cents per day per cow by switching from corn to steam-flaked grain sorghum**. Six lactation trials involving 215 cows in early to mid lactation were recently conducted at the University of Arizona Dairy Cattle Center. The research, funded by the Texas Grain Sorghum Producers Board, showed the following results:

When fed at 30 to 45% of the diet dry matter, steam-flaked sorghum (SFS - 28 lb/bu) out-performed steam-rolled corn (SRC) and dry-rolled sorghum (DRS) for milk and milk protein yields, as well as efficiency of feed utilization. A very flat sorghum flake (21 lb/bu) fed at 40% decreased intake and performance, but increased milk production when fed at 15% of the diet.

Summarization of data from six studies showed that steam-flaking of sorghum grain (27 to 31 lb/bu) increased milk production an average of 10%, milk fat yield 4%, milk protein yield 16% and feed efficiency 7%, compared to dry-rolled sorghum. The improved performance with steam-flaked grains appeared related to ruminant and total starch digestion.

Table 1. Effect of flaking sorghum on dairy cow performance.

Item	Sorghum comparisons		Change %	Sorghum vs corn ²		
	DRS	SFS		SRC	DRS	SFS
Number of cows	69	67		15	15	15
Ruminal starch dig. % ³	54	78	44	70	60	81
Total starch dig. %	76	95	25	87	78	95
Dry matter intake (lb/day)	53.6	53.8	0	54.9	55.8	55.6
Milk, lb/day	68.8	75.9	10	68.8	66.6	72.8
3.5% FCM, lb/day	66.8	71.0	6	67.0	65.7	70.1
FCM/DMI	1.30	1.39	7	1.26	1.20	1.30
Milk fat, %	3.35	3.19	-5	3.34	3.42	3.40
Milk fat, lb./day	2.29	2.39	4	2.29	2.29	2.40
Milk protein, %	2.90	3.03	4	2.95	2.86	3.06
Milk protein, lb/day	1.98	2.29	16	1.98	1.92	2.23

¹Summary of six 56- to 80-day lactation trials.

²Summary of two 80- and 70-day lactation trials.

³From metabolic trials of Poora et al. (1990) and Oliveira (1991).

Table 2. Increased profits from feeding steam-flaked sorghum compared to dry-rolled sorghum or steam-rolled corn to lactating dairy cows.¹

Assumptions:

- 1) Cost of flaking sorghum = \$10/ton or .5 cents/lb; sorghum intake by cows=20 lb/day @ .5 cents/lb=10 cents/day.
- 2) Uniform blend price of milk (Mar, 1992, in Dallas, TX) = \$13.22 with 10 cents differential for protein (base=3.1%) and 8.1 cents differential for fat (base=3.5%).

Processing benefits:

Steam-flaked vs dry-rolled sorghum: value of milk = \$9.79 (SFS) vs \$8.87 (DRS).

Increased profit = 92cents/d/cow-10cents(for flaking) = 82 cents. For 100-cow herd (300 d) = **\$24,600.**

Steam-flaked sorghum vs steam-rolled corn²: value of milk=\$9.55 (SFS) vs \$8.90 (SRC).

Increased profit = 65 cents/d/cow. For 100-cow herd (300 d) = **\$19,500.**

¹Data from Table 1 values.

²Costs of SFS and SRC were equal (U of A, Apr. 92)



UTILIZATION OF STEAM-FLAKED MILO OR CORN FOR FINISHING STEERS

Bob Brandt, Jr., Gerry Kuhl and Curtis Kastner
Kansas State University
(913) 532-6147

RESULTS AND DISCUSSION

There were no differences in dry matter intake, average daily gain or feed conversion between steers fed steam-flaked milo (SFM) or steam flaked corn (SFC, Table 1). Main effect means for daily gain (lb/day) and efficiency of feed conversion (feed/gain) were 4.03 vs 4.03, 21.3 vs 21.2, and 5.32 vs 5.28 for SFM vs SFC respectively. Addition of 4% yellow grease improved daily gain 4.4% ($P < .12$) and feed efficiency 6% ($P < .05$) compared to nonsupplemented diets. Costs of gain for SFM (-fat), SFM (+fat), SFC (-fat) and SFC (+fat) were 44, 43, 49 and 48 cents/lb, respectively. Thus, with the current price structure, milo is much more economical than corn for cattle feedlots equipped with steam flakers. Although supplemental fat increased ration costs, costs of gain were reduced by 1 cent/lb. In this study, cattle were slaughtered at a time-constant end point. It may be possible that increased gains provided by fat can reduce the number of days required in the feedlot and total cost of gain through reduction of interest and yardage costs.

Table 1. Effect of Grain Type and Supplemental Fat on Steer Finishing Performance

Item	Flaked Milo		Flaked Corn		SE
	0%	4%	0%	4%	
No. pens	5	5	5	5	
No. steers	35	35	35	35	
Initial wt, lb	815	815	815	816	.5
Daily gain, lb ^a	3.94	4.12	3.94	4.11	.104
Daily feed, lb DM	21.3	21.3	21.5	20.9	.32
Feed/gain ^{bc}	5.46	5.19	5.46	5.10	.160
Cost of gain, \$/lb ^d	.44.	.43	.49	.48	

^aFinal weights were warm carcass weights adjusted to a 63% dress.

^bAnalyzed statistically as gain/feed.

^cFat effect ($P < .05$).

^dBased on \$2.85/bu corn, \$4.30/cwt milo, 11% interest, \$.06 daily yardage.



UTILIZATION OF STEAM-FLAKED GRAIN SORGHUM AND CORN WITH AND WITHOUT ADDED FAT BY GROWING/FINISHING STEERS

R.B. Blackwood and Dr. C.R. Richardson
Texas Tech University
(806) 742-2825

SUMMARY OF TWO STUDIES

In two separate trials Brangus and Hereford steers (601 ± 6.8 lb; $n=112$) and Angus and Angus-Hereford steers (740 ± 3.5 lb; $n=112$) were randomly assigned to 16 pens in each trial (seven per pen) and fed one of four dietary treatments in a completely randomized 2 X 2 factorial experimental design. Diets contained 10% roughage, 13% crude protein and adequate levels of all other nutrients. Major energy sources in the diets consisted of grain sorghum without added fat, corn without added fat, grain sorghum + 2% fat and corn + 2% fat. Steers were slaughtered after reaching market weight and finish. Carcasses of all steers were evaluated 24 h postmortem for USDA quality grades; hot carcass weights; marbling score; fat thickness; ribeye area; kidney, pelvic and heart fat; maturity scores; lean color; lean firmness; heat rings and lean texture. Data collected from these two trials were combined for statistical purposes.

Cumulative data show no differences in feed intake, ADG, feed required per pound of gain or energy required per lb. of gain ($P>.05$) across all treatments. Diet had no effect on any of the measured carcass characteristics except for fat thickness, ribeye area, percent kidney, pelvic and heart fat and hot - carcass weight ($P>.05$).

These data show that steam-flaked grain sorghum without fat has equal value to steam-flaked corn without fat when fed to growing/finishing steers. Carcasses produced by steers fed corn without fat and corn + fat diets had more external fat as indicated by increased fat thickness and higher KPH fat percent ($P<.05$).

PERFORMANCE OF GROWING/FINISHING STEERS

	GS	SEM	CN	SEM	GS+F	SEM	CN+F	SEM
DMI (lb/d/head)	15.9	.41	16.3	.42	16.6	.39	17.8	.22
ADG (lb/d/head)	2.5	.09	2.6	.05	2.5	.06	2.7	.04
DMI (/ lb gain)	6.6	.15	6.3	.07	6.5	.09	6.2	.12
MCAL/lb gain	8.4	.18	8.4	.08	8.5	.15	8.3	.21

CONCLUSION

These data show that steam-flaked grain sorghum can be /used instead of steam-flaked corn when fed without additional fat in high concentrate diets for growing/finishing steers without suffering any adverse effect on gain, feed efficiency or quality grade. Fat added to any of these diets did not give the boost in performance that has been reported.



EFFECT OF ENZYME (DM) TREATED GROUND GRAIN SORGHUM AS A DIETARY CARBOHYDRATE SOURCE FOR COMMERCIAL LAYERS

W. F. Krueger and Dale Hyatt
Texas A&M University, 409-845-1931

RESULTS AND DISCUSSION

A total of 320 Hyline W36 egg-type commercial layers in 3% production were randomized into five groups, placed in laying cages using a randomized block experimental design, and each group fed one of five isocaloric/isonitrogenous commercial layer diets for twelve 28-day production periods. Grain sources for the diets were as follows: Diet 1 — all sorghum + 6 oz. DM, Diet 2 — all sorghum + 4 oz. DM, Diet 3 — all sorghum untreated, Diet 4 — half sorghum/half corn untreated, Diet 5 — all corn untreated.

At the end of 12 periods of production there were no statistically significant differences in rate of egg production attributable to treatments. The lowest rate of egg production was 77.37% and the highest 79.95%, a difference of only 2.58% between the extremes in egg production.

Treatment of ground sorghum with 6 oz. of Digest M resulted in an improvement in feed required to produce a dozen eggs (3.065 feed conversion) over untreated ground sorghum (FC 3.110). **More important, grain sorghum treated with 6 oz. DM produced a feed conversion equal to or better than that from corn (FC 3.092).**

It is concluded that Digest M has a place in the diet of laying hens where grain sorghum is the grain source and is competitive in price with corn. Four ounces of Digest M is not adequate for grain treatment of laying hen diets, and six ounces per ton of ground sorghum may be marginal. Additional tests using higher levels of Digest M are needed to determine what an adequate grain treatment level is for laying hen diets.

THE EFFECT OF DIGEST M (DM) ENZYME TREATMENT OF GROUND GRAIN SORGHUM (MILO) IN THE DIET OF EGG-TYPE COMMERCIAL LAYERS FOR 12 PERIODS (336 DAYS) OF PRODUCTION.

Performance Traits	All Milo + 6oz DM (Diet 1)	All Milo + 4oz DM (Diet 2)	All Milo Control (Diet 3)	1/2 Milo 1/2 Corn (Diet 4)	All Corn (Diet 5)
Number Hens	64	64	64	64	64
Egg Production (% Hen-Day)	78.42A*	78.44A	79.95A	77.37A	79.50A
Lbs. Feed/Doz. Eggs	3.065A	3.150A	3.110A	3.217A	3.092A
Gms. Feed/Gm. of Egg	2.005A	2.046A	2.005A	2.066A	2.002A
Egg Weight (gms.)	58.060C	58.499B	59.013A	59.170A	58.625B
Body Weight (gms.)	1,593C	1,669AB	1,628BC	1,700A	1,534D
Livability(%)	89.06A	95.31A	93.75A	95.31A	89.06A

*Means with the same letter are not significantly different at P=.05.



GOVERNMENT PROGRAM UPDATE FOR MARCH TELENET

IS THIS THE YEAR TO SWITCH FROM MILO TO CORN?

Growers that have the option to switch from milo to short season corn in dryland areas of eastern and central Kansas may want to consider doing so this year. The two reasons for considering this switch include target price spread and crop insurance price elections. There is a 14 cent spread in the target price between milo and corn (Table 1). The current target price for corn is \$2.75, while the target price for milo is \$2.61. Growers are allowed to switch between milo and corn if they have a feed grain base.

Some growers may consider corn to be a more risky crop to produce than milo but because of an unusual price election spread in the crop insurance contract, growers may be able to cover that additional risk this year. FCIC announced the top price election for corn at \$2.30 while the top price election for milo is \$1.65. That represents a 65 cent spread in the top price elections between milo and corn (Table 2).

The other consideration is variable cash costs to produce corn versus milo. Table 3 contains a list of the variable cash costs for dryland corn and milo based on eastern Kansas. These costs are also based on an expected yield of 80 bushels for milo and 100 bushels for corn. Growers may want to consider these expenses very closely for their own farm situation.

These budgeted costs represent the variable cash cost per acre for the two crops and is not broken out by pre-harvest cash costs versus harvest cash costs. For the purposes of these budgets it was assumed that it costs \$14.00 per acre to operate a combine, 11 cents per bushel for trucking, storage, handling, etc., and 10 cents per bushel for drying costs. That procedure was used to allow the adjustments made in worksheets 1 and 2 where the scenario of low yield low price, low yield high price, were considered along with a expected yield price scenario for both corn and milo. The analysis considers only the farmer who is participating in the ASCS commodity program and does not consider the option of opting out of the program.

An analysis of the option to switch from milo to corn is presented in worksheets 1 and 2. The analysis includes both crops with and without crop insurance and also considers the 0/92 program.

The 0/92 Program will not be attractive to most farmers unless they are prevented from planting. If growers have a low yield and the crop is insured, they will end up with more revenue than they would in the 0/92 Program and the returns will be higher if they receive a normal yield, unless costs are unusually high.

¹Prepared by G. A. (Art) Barnaby, Jr., Department of Agricultural Economics, Cooperative Extension Service, Kansas State University, Manhattan, Kansas 66506, February 13, 1990.



GRAIN SORGHUM PROFITABILITY STUDY: EIGHT-YEAR ECONOMIC COMPARISON

University of Missouri Hundley-Whaley Research Farm, Albany, Missouri
Ms Maryann Redelfs, Extension Agronomist, University of Missouri, (819) 882-5661

This study is intended to monitor the production costs and income of corn and grain sorghum over several years to determine which crop results in the best profit under our soil and climate conditions, and to compare the year to year consistency of income for each crop. Both crops are managed to produce practical yields.

THE STUDY HAS SHOWN THAT:

- Grain sorghum is a crop for managing the risk of crop loss due to dry weather.
- Grain sorghum usually costs less to produce and yields are less affected by dry weather than corn.
- Grain sorghum has been more consistent than corn and not as risky.
- Corn has had more fluctuation in economic return than grain sorghum throughout the study.
- Corn has cost an average of \$23.03/acre/year more to produce than grain sorghum.

Return to land and management in dollars per acre for corn and grain sorghum in past years at the Hundley-Whaley Research Farm, Albany, Missouri.

Year:	1985	1986	1987	1988	1989	1990	1991	1992	Avg
Corn w/o gov. pay.	1.75	-60.92	116.78	-15.76	-5.56	67.83	228.93	89.50	52.82
Corn with gov. pay.	45.91	41.20	230.72	47.33	48.35	148.49	266.65	133.66	120.29
Milo w/o gov. pay.	101.16	-23.40	38.45	17.28	55.88	85.25	214.31	-8.86	60.01
Milo with gov. pay.	137.50	60.34	133.81	71.00	108.02	155.39	243.54	27.50	117.14

- Only three years out of the eight has corn without government payments been more profitable than grain sorghum.
- Over the past eight years, without government programs, grain sorghum would have made \$57.52 more per acre than corn, or an average of \$7.19/acre/year.
- Differences in government programs have made up the difference between the average return for corn and grain sorghum over the eight years, with corn resulting in \$3.12/acre/year more than grain sorghum.
- U.S. farm policy sets the loan rate and target price of sorghum at less than corn.

Iran, Japan boosting world rice demand...Page 27

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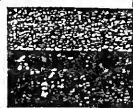
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Beef log
Page 28

Big Oklahoma hog operation to boost demand for grain

By CALVIN PIGG
Farm Press Editorial Staff

GUYMON, Okla. — Big things, really big things, are stirring in the Oklahoma Panhandle these days.

So big that some Panhandle officials are predicting that one county here one day will rank among the top five agricultural counties in the United States in terms of cash receipts from farm marketings, nosing out several California counties in the top-dollar sweepstakes. The county — Texas County, with Guymon its county seat — ranked a

respectful 19th in gross cash farm marketings valued at \$647 million in 1989, according to the U.S. Bureau of Economic Analysis. This came mostly from grain growing and beef cattle feeding.

But the annual cash marketings from agriculture from Texas County are expected to skyrocket beyond the \$1.5 billion mark by the end of this decade, maybe within three or four years.

The latest economic infusion is coming from Seaboard Corporation, a Massachusetts-based conglomerate, which is remodeling

facilities to eventually slaughter four million head of company-bred and owned pigs a year in a converted beef processing plant at Guymon.

Seaboard Farms of Oklahoma, Inc., as the hog operation is known, is offering seven-year pig

(See HOG, Page 7)

Stalk pullers gaining favor with growers

By CALVIN PIGG
Farm Press Editorial Staff

EDROY, Texas — Cotton producer John Barrett destroyed shredded cotton stalks following his 1993 harvest in a mere one third of the time it's taken him in past years.

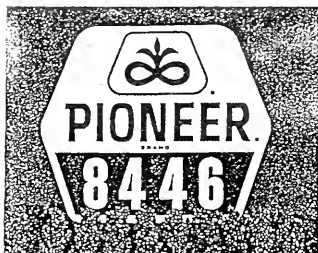
Stalk plow-up and its timing is critical in south Texas where growers must meet a state plow-up deadline as part of insect pest management, namely boll weevil.

Barrett, it seems, is one of an

(See STALK, Page 14)



OKLAHOMA PANHANDLE corn grower Nick Neville of Guymon, left, observes as yet another new center pivot irrigation unit is installed on a Texas County, Oklahoma farm. With him is Extension agronomist Mark Hodges who estimates the area's giant hog production project will consume three and a half times more sorghum than is now produced in the three county Panhandle area. Neville has installed 11 water saving pivot units in his own operation in recent years.



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Hog operation to boost grain demand

(Continued from Page 1)

"finishing" contracts to landowner/operators in Texas, Cimarron and Beaver counties of the Oklahoma Panhandle, and even down into the Texas Panhandle.

Annual sales of "the other white meat" from the Guymon-based giant operation are expected to reach \$650 million in its planned two-phased development.

"Seaboard's entry is going to let a lot of young people stay at home and on the farm if they want to," said real estate man and auctioneer Bill Newman of Guymon.

"Our grain farms can produce enough income (with grain and pig feeding) to support two families."

Local automotive paint and body shop owner Don Scott, who is chairman of Economic Development Committee of the Guymon Chamber of Commerce and who made the initial contacts with Seaboard about locating in the area, said he sees the "marriage" between family farmers and corporate agriculture as being mutually beneficial to everyone — not as an adversarial relationship at all.

"The Oklahoma Panhandle has a history of successful beef cattle feeding, most under the corporate umbrella. We know how to make it work. We already have an agriculturally friendly business climate here and that, I understand, is one reason Seaboard decided to come here in the first place."

(Guymon citizens passed a one cent additional sales tax to lure Seaboard to the area and to pay for needed town support improvements. The levy proposal received some small opposition.)

Noteworthy too is the fact that Oklahoma's water quality and waste management laws affecting agriculture aren't as stringent as those in some other states.

Scott said considering all of the complexities involved in bringing the estimated \$55 million Seaboard project to a town of 8,000, "it's amazing to me to see how smooth it's gone so far."

Seaboard Corporation actually announced the project 15 months ago and immediately began gutting the abandoned Swift beef packing plant on the outskirts of Guymon. The plant is due to begin its single-shift (phase-one) operations with 700 employees and a two million a year pig kill schedule sometime during the summer of 1995.

Under the second-shift (phase-two) and a four million head a year slaughter the local processing force will be doubled to 1,400.

But today, bred sows are birthing the first pigs in company-owned environmentally-controlled farrowing houses. The first 55 pound feeders have already been placed in just-completed "finishing" houses — incidentally in houses built on property of one of the area's pioneer beef cattle feeding operations, Hitch Ranch.

"We'd been looking for ways to

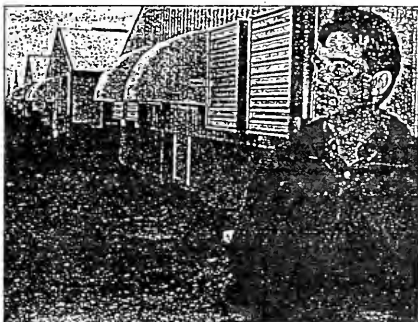
diversify operations further and pig housing facilities offered us that opportunity," said H. C. "Ladd" Hitch, Jr. of Guymon, chairman of the board of Hitch Enterprises, Inc.

Hitch is involved in cattle feeding, cattle buying, farming, beef packing and other investments.

The first 28 pig finishing houses and the waste collection system at Hitch Ranch were constructed by

already borders on being a grain deficit area and hog production will sharpen the competition for available supplies of sorghum and corn even more. The hog feeding rations will be heavily sorghum-grain based. Sorghum and soybean meal will be the major ingredients.

Local grain producers are excited about this increasing demand and its profit potential.



SEABOARD'S HOG production manager Mike Brandt checks the readiness of the new finishing houses to receive 55 pound animals at Hitch Ranch.

Hitch, but are being leased to Seaboard who will run them entirely.

"But we're expecting to get into the hog production business ourselves, perhaps with 10,000 sows — from farrowing to finishing."

Hitch told Southwest Farm Press. He noted that the Oklahoma Panhandle, with its high demand for grain from cattle feeding,

As to how all this is playing out on crop agriculture, a university agronomist is predicting that irrigated farmers will "tend" to plant more sorghum and corn, both potentially higher income crops, at the expense of wheat acreage.

Extension agronomist Mark Hodges of Guymon said, like in other irrigated areas, Oklahoma Panhandle farmers are in a head-

long rush to convert from furrow irrigation for watering crops to more efficient center pivot sprinkler irrigation systems, especially now. Most are installing the most efficient low energy precision application (LEPA) type systems.

"Our grain producers see a good market for grain in the future and they're wanting to make the best possible use of water resources," Hodges said. One irrigation company installer said his company sold 215 center pivot units in 1993. That's nearly one unit every working day.

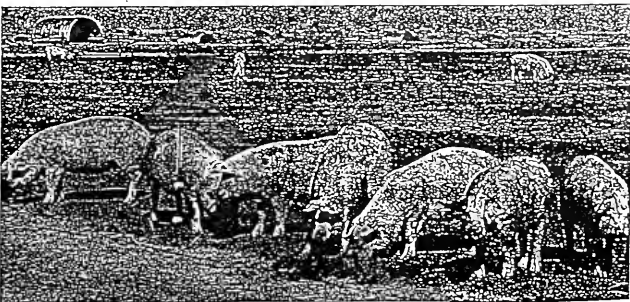
"We are seeing the beginning times for a lot of opportunities here. Including for our long-established family farm operators," said Monte W. Lareau, president of the Bank of the Panhandle, Guymon. He said land prices have risen 10 to 15 percent in the last 18 months.

Senior vice president Steve Baggerly said the bank wasn't financing center pivot irrigation units on cropland four years ago. Today it is funding quite a few for its customers.

He said the bank is now beginning to get inquiries from customers about financing the \$150,000 required for each pig finishing house. "The serious interest is just beginning to show up."

Incidentally, the three Panhandle counties collectively account for some 22 percent of Oklahoma's gross receipts from agriculture, including grain production and the feeding of 800,000 head of feedyard cattle a year. The Oklahoma Panhandle region comprises 11.3 percent of the state's land area, but a mere 1.1 percent of the state's population.

Guymon is working with a private national group to help bring much-needed new housing to the community. The first will be 220 new rental units. Chamber of (See HOGS, Page 16)



SOWS FORAGE in one of the majority of pigs will be rats

door production units operated by Seaboard Farms. The vast

Will boost grain demand

Hogs to benefit Oklahoma growers

(Continued from Page 7)

Commerce executive vice president Roy Ehly says he sees Guymon's population doubling to 16,000 in the future.

"We have built two new houses in Guymon in the past five years. But today there are 22 new homes under construction here," he said.

Meanwhile, Mike Brandherm, hog production manager for Seaboard Farms of Oklahoma, Inc., is estimating that 95 percent

of all the finish feeding — from 55 pounds to a 240 to 260 pound weight per animal — will be done with contract finishers, mostly on local farms.

Initially, 140 to 150 local finishing houses (960 animals each) will be required for Phase I of the project. The first slaughter requirement will be for 8,000 hogs a day once the processing plant opens.

"We're looking at a minimum of

three houses per site which the owner must finance, build and operate under contract with Seaboard," Brandherm explained. Each site will include a waste water collection lagoon and liquid handling system that meets state permitting requirements.

He estimated that one person could adequately take care of three finishing houses with their 2,880 pigs in three to five hours daily.

The farmer is to provide the buildings, land, labor, and insurance while Seaboard will furnish the pigs, feed, technical assistance and medications. Each finisher will be trained by Seaboard field production specialists.

The finish feeder, Brandherm said, will be paid by Seaboard on a per-pound of gain basis with extra incentives for added performance.

The entire production scheme, he explained, will use a "three-site system." Each 2,400 sow farrowing unit will produce 950 to 1,000 pigs weekly. From the farrowing house three week old weaned pigs weighing 14 to 15 pounds will be moved to a nursery site. Here, the animals will spend the next seven to eight weeks reaching a weight of 55 to 60 pounds under four different ration changes. Everything up until this time has been in Seaboard-owned facilities.

From the nursery houses the pigs will then be "famed out" to the individual contract finishing sites under the eye of Seaboard technicians, again with several ration changes. The pigs will be sorted and "sex-fed" for best performance up to the 240 to 260 pound range.

The entire production system, including on-farm finishing," Brandherm summed up, is maintained by computer so that the animal's entire feed intake goes into its growth — none of its energy will have to be utilized to overcome either hot or cold weather conditions.

As to the overall feed-to-meat feeding efficiency, known as feed conversion, Brandherm said the goal is for a whole-herd conversion of 3.2 pounds of ration fed to produce one pound of animal. During certain feeding phases the feed conversion will be less than three-to-one.

He said the firm is striving to locate its contract finishing houses within 50 miles of Guymon to maximize both feed delivery to the farm and the transport of animals into the processing plant.

A whole host of private vendors, including transportation companies, are expected to locate in the area to support the four-million head a year operation, further adding to local economic growth and development.

In its original project announcement, Seaboard President H.H. Bresky said the firm is convinced that pork can compete with poultry as a healthy, cost-effective alternative to red meat.

To do this, we must work with pork producers to lower the cost of growing lean, high quality hogs."

The plan is for Seaboard Farms of Oklahoma, Inc. to produce a variety of processed pork products for retail, food service and export customers.

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Testimony before the House Committee
on Agriculture
Subcommittee on General Farm Commodities
"Economic Outlook of the U.S. Agriculture Sector"
June 29, 1994

Gerald Lacey, President
National Barley Growers Association

Mr. Chairman and Members of the Subcommittee --

I am Gerald Lacey, a Minnesota farmer from the Red River Valley and President of the National Barley Growers Association. Our organization represents the six northern tier states of Minnesota, North Dakota, Montana, Oregon, Washington and Idaho. Those states produce approximately 85% of the barley raised in the United States.

We are pleased that your Subcommittee is raising the curtain on the 1995 Farm Bill by holding this hearing on the economic outlook for U.S. Commodities. NBGA is sorting through the various options which are surfacing from a variety of origins and will be working toward position papers during the remainder of the summer. It is early in the process, but we can share with you today some of our general concerns and objectives.

Currently our greatest worry is the greatly accelerated flow of Canadian barley entering our market. The Canada/U.S. Trade Agreement was very poorly negotiated in terms of free trade in barley. In order to acquire a license for U.S. barley to cross the border north, the end-user in Canada has to prove there is no Canadian barley stocks available to fill his needs. For Canadian barley to move south, no license is required and all that is necessary to make the sale is to undercut the U.S. market price. Given the Canadian single-desk marketing system, assisted by a significant transportation subsidy,

such predatory pricing is easily possible. As a result, the unrestrained flow of Canadian barley into the U.S. is equal to approximately 14% of our annual production. The effect has been to severely impact the U.S. farm program for barley. The added pressure of these additional stocks has driven down farm-gate prices by an estimated 22 cents per bushel, increasing budget exposure for deficiency payments. It is projected that an additional \$67 million in barley deficiency payments will have to be paid for the 1993-94 marketing year. (See attached material.) For the first time, the U.S. will be a net importer of barley with exports of approximately 63 million bushels and imports of around 65 million bushels.

We have placed considerable faith in the Article 28 action initiated by the U.S. in response to the interference with U.S. farm programs caused by the Canadian imports. Now, however, we are told that there is resistance in the House Ways and Means and Senate Finance Committee to the inclusion of authority for Article 28 sanctions in the GATT implementation legislation. To the extent the House Agriculture Committee has jurisdiction over the elements of the GATT implementation language, we earnestly solicit your support for authority of the U.S. government to impose tariffs and quotas under Article 28. It is barley's only recourse to the devastating flood of Canadian barley exports.

Turning to the farm bill debate, barley, along with the other commodities, is trapped in a situation where budget considerations are steadily reducing the amount of money available to conduct a meaningful program, while at the same time production

costs are edging up. Particularly discouraging are the escalating costs induced by mandated tillage practices, environmental permits and taxes on chemicals and fertilizer. Those requirements must be met without compensation, and with the erosion of program benefits, the possibility of profitable farming under the present system is fading away. This reality is forcing agriculture to take a serious look at the alternate directions available if our current program is indeed untenable.

There is no shortage of advice and concepts. The Grain Trade has a tendency to urge us to get rid of EEP, bring CRP acres back into production and place our confidence in a world market freed up by GATT. The scholarly economists often advise us to become more efficient so we can compete. Those suggestions have limited appeal to barley growers, but there are other tentative plans which attract our attention. Conversion of EEP financing and deficiency payments to direct payments to farmers has a seductive ring to it, but does not have answers to how we would fare in an export market dominated over the next six years by EU restitutions. The so-called Iowa Plan attracted early attention with its income assurances decoupled from program compliance, but there is deep seated resistance by farmers to being relegated to a semi-welfare status. At this point in time, there are no easy solutions in sight. If that is the case -- if no magic formula can be devised, there still remains the possibility that the program on the books now could be refitted and recalibrated to see us through until the end of the GATT phase-in. Some kind words should be said for it. In its forty-odd years

of existence in various modes, it has been a strong safety net for most farmers. It is really only in serious trouble now because of the budgetary stranglehold it is suffering.

Its presence has been institutionalized into land values, rural financial services and the entire industry of transportation, input supply and marketing infrastructure for agriculture. Its successor, if that is to be, will have to be in excellent form to see us through the next forty years nearly as well. Having praised the program I hasten to add that barley has not fared well under its provisions when compared to other grains. In the early years of farm programs, barley was badly undervalued in terms of feed characteristics. This, of course, was reflected in relatively low loan rates and target prices. Subsequent research has greatly improved the statistical evaluation of barley's nutritional value, but that fact has been largely overlooked as farm bills have evolved. Not until NBGA was organized in 1988 was any effort made to get program provisions adjusted to the correct relationship between corn and barley. As a result, barley has lagged far behind in return-per-acre and is in danger of following oats into oblivion as a viable program crop.

Thank you, Mr. Chairman, for the opportunity to appear and whatever your Committee's deliberations over the next eighteen months, please reserve a kind thought for barley.

(Attachments follow:)

Attachment 1: Estimate of Price Impacts

Regression of Barley Prices on 6 supply factors

Dependent (Y)

Variable

Barley

Price

\$/bu

Independent (X) Variables

Barley

Corn

Year	Production	Beginning Stocks	Imports	Domestic Use	Exports	Price
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MY beginning Jul 1

millions of bushels

1993 (with quota)	400	151	13	425	65	\$2.55	\$2.53
1993 (as of 3/10/94)	400	151	60	425	85	\$2.55	\$2.31
1992	458	121	11	364	80	\$2.37	\$2.04
1991	464	135	20	390	85	\$2.40	\$2.10
1990	419	161	10	378	85	\$2.30	\$2.14
1989	404	196	13	368	85	\$2.36	\$2.42
1988	290	321	11	346	79	\$2.54	\$2.80
1987	522	308	11	427	121	\$1.94	\$1.81
1986	609	327	7	472	134	\$1.50	\$1.81
1985	590	247	6	497	20	\$2.23	\$1.98
1984	598	189	8	476	72	\$2.63	\$2.29
1983	508	217	5	452	89	\$3.21	\$2.47
1982	515	148	8	411	44	\$2.55	\$2.18
1981	474	137	7	371	98	\$2.47	\$2.48
1980	361	192	8	346	76	\$3.12	\$2.79
1979	383	228	7	373	53	\$2.48	\$2.27
1978	455	173	7	382	25	\$2.25	\$1.92
1977	428	126	7	332	55	\$2.02	\$1.78
1976	383	128	9	329	65	\$2.15	\$2.25

Regression Output:

Constant 1.228595592
 Std Err of Y Est 0.1734372922
 R Squared 0.8296699067

No. of Observations 17
 Degrees of Freedom 10 P=.05

	-0.00310	-0.00022	-0.00474	0.00279	0.00208	0.51725
X Coefficient(s)	0.00245	0.00153	0.01513	0.00430	0.00212	0.19158
Std Err of Coef.						
t statistic	-1.3	-0.1	-0.3	0.8	1.0	2.7

Price Drop

\$0.22

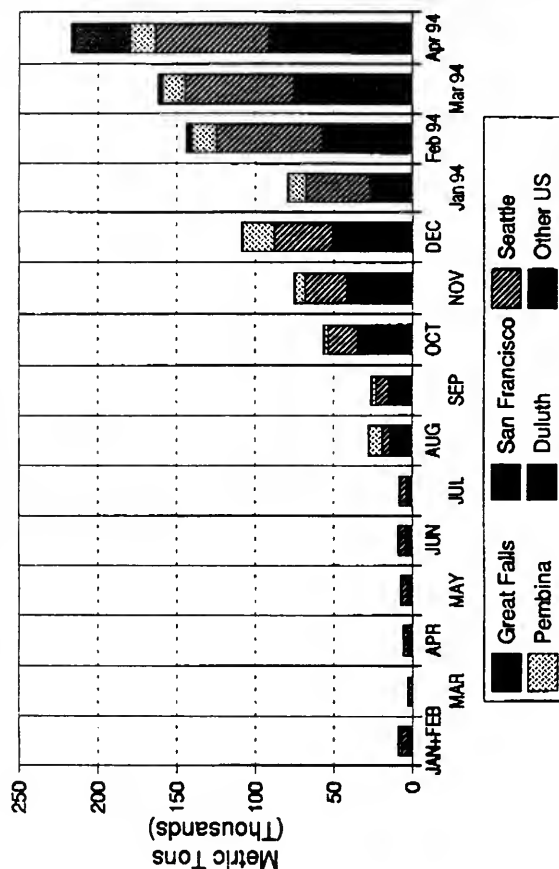
\$0.22

Damage: (\$3 million per 1¢ price drop)

\$66,799.492

Data source: USDA Reports. Values from 1976-1992 are included in the model. Independent variable values for 1993 are taken from USDA projections in March, 1994, and the 1993 price is a value predicted by the model.

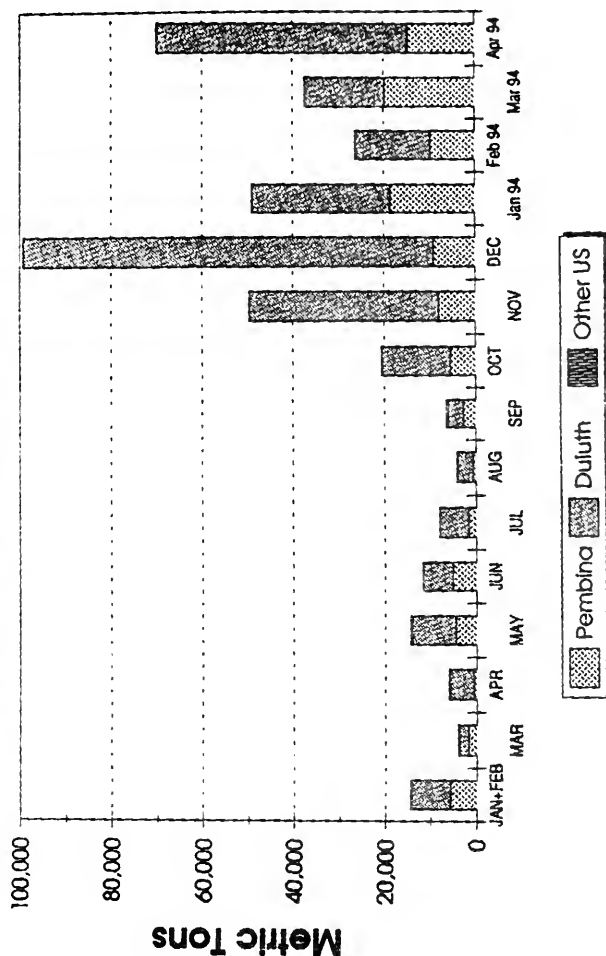
Feed Barley Imports from Canada Calendar Year 1993, by Port District



Data: US Commerce Department, courtesy of North Dakota Barley Council
Graph prepared by Oregon Grains Commission

Malting Barley Imports from Canada

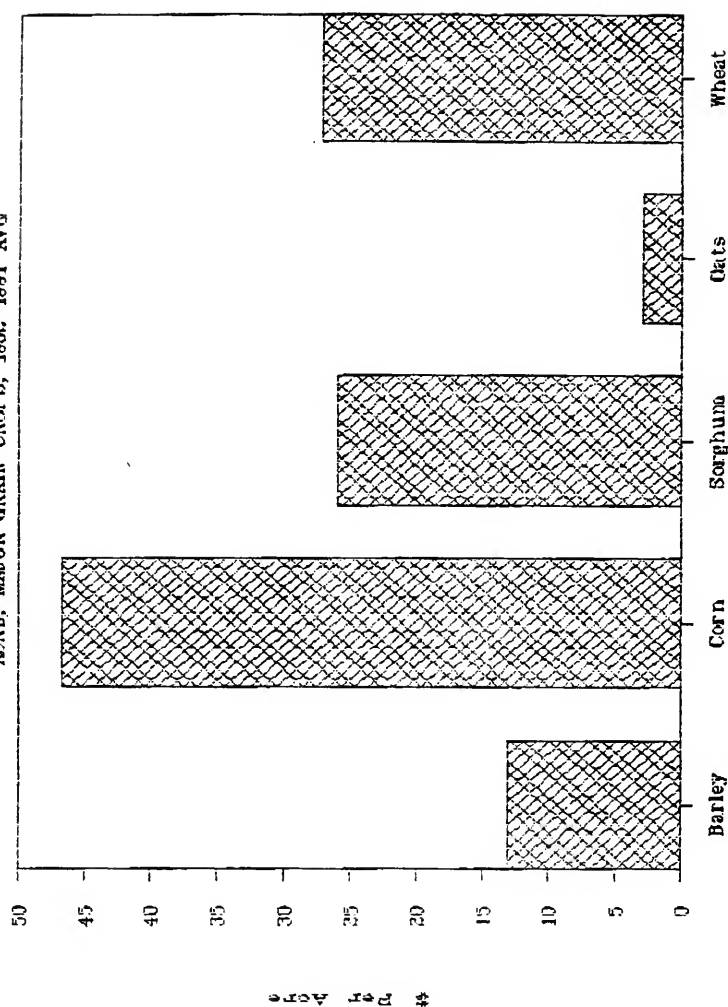
Calendar Year 1993: By Customs Point



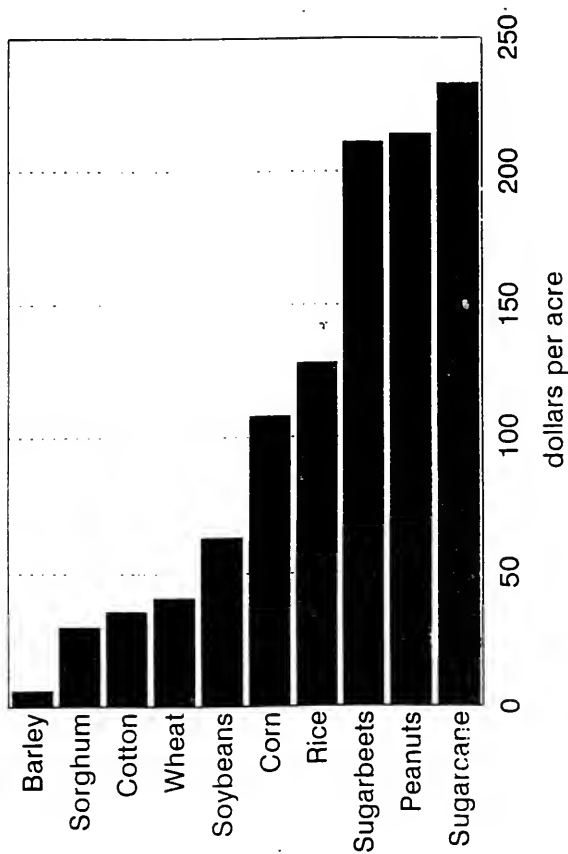
Data: US Commerce Department, courtesy of North Dakota Barley Council
Graph prepared by Oregon Grains Commission

DIRECT GOVERNMENT SUPPORT PAYMENTS, PER

ACRE, MAJOR GRAIN CROPS, 1982-1991 AVG



Net Returns Per Acre



*Market returns plus deficiency payments minus cash expenses and allowance for capital replacement.

Abel, Daft & Earley

**TESTIMONY FOR THE
GENERAL FARM COMMODITIES
SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON AGRICULTURE**

June 29, 1994

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before you today to present the views and positions of the American Corn Growers Association (ACGA). A long time friend of yours, Carl King, President of the Texas Corn Growers and founder of the American Corn Growers Association, ask that I also represent the views of the Texas Corn Growers Association (TCGA) headquartered in Dimmitt, Texas which as you know is in your district, Mr. Chairman.

First, let's look at the economic outlook for corn farmers. At the very least, it is a fragile economy. Many producers are one disaster away from loosing their farms. It is going to take several years to see how the farms in the Midwest that were hit by the floods of 1993 come back into production.

New rules and regulations, both in conservation and environmental areas continue to increase our costs. Yearly increases in the prices of parts, machinery and other inputs cause it to be more difficult to make the necessary capital investments we need in the operation of our farms.

Government forecasts of higher farm income usually don't put money in our pockets. For some reason our bankers and other creditors are not impressed by those predictions. Even FmHA shows little respect for anything but cash on the barrel.

We applaud Secretary Espy's decision earlier this year to raise loan rates. A farmer can go to the bank with a loan rate and borrow money, but deficiency payments do little good at that stage of farming.

Secretary Espy's decision put more money in farmers pockets' than even the BEST projections of GATT and NAFTA combined! All farmers have ever needed is a fair price for our production.

The ag budget will continue to get smaller. By raising loan rates you reduce target payments which mean you save taxpayer dollars. In the late 1970's USDA economists did not want a penny difference between the target and the loan. During the past 12 years that did not seem to be a concern.

You can raise loan rates and operate programs for less cost to the taxpayer. Prior to 1986, programs cost less than five billion dollars excepting 1983 for the PIK program. We know budgets will be cut, but we can structure farm programs to operate effectively with less cost to the taxpayer!

Mr. Chairman, the 1995 Agriculture Appropriations bill recently approved by the House Appropriations Committee calls for \$67.8 billion, or \$4 billion below last year. Of that amount, \$40.26 billion will go to public feeding programs, with food stamps receiving \$25.2 billion and Women, Infant and Children Nutrition programs receiving \$3.47 billion.

It is projected that farm subsidy spending for 1995 is estimated at \$9 billion. That is \$9 billion of a \$67.8 billion USDA budget, and \$9 billion of a one and one-half trillion dollar national budget. We feel that when you put the numbers into perspective, you see that what our government is paying for the healthiest, tastiest and cheapest food supply in the world is really a bargain.

The ACGA and the TCGA and its producer members believe this story needs to be told. We are committed to do our part. We hope that the members of this committee and other members from agriculture districts will continue to do the good job you have done in the past by informing the public. We need your leadership more than ever before in telling the story of production agriculture. If you are not willing to meet this challenge, then what Member of Congress is going to be willing to stand up for the American Farmer.

Farm income is vital to rural communities. If farm income is healthy, rural development works. When farm income is down, stores and businesses close, and our young people are looking to the large cities for their jobs and their futures.

Mr. Chairman, the price of commodities for the next decade will be the key to the future of rural America.

We realize the importance of all sectors of the agriculture community. But, it is vital for each of you to remember that the men and women that plant the seeds and harvest the crops continue to be the foundation of our agricultural economy.

TRADE has been a driving force of the agriculture debate for the past twenty years. It is easy to talk about increased agricultural trade with Mexico if you don't know all the facts. The truth is that Mexico produced about 18 million metric tons of corn last year. Almost all of that was white corn. They consumed 15 million metric tons. That means they had a surplus of 3 million metric tons or about 17 million bushels of corn. They so over produced that they were feeding white corn to their livestock.

Now if Mexican farmers are overproducing, where is this great new market for our corn that we keep hearing about. I'll tell you where it is. It's non-existent! Increased trade of United States corn to Mexico is a smoke-screen pulled over the eyes of our country's corn producers. It's a sham perpetuated in the name of free trade.

Our trade policy must be fair. Not only to us, but to our trading partners as well. The dumping of cheap U.S. corn into Mexico to further erode their price structure is an injustice that must not be allowed to happen.

We have major objections to the proposed GATT treaty and will oppose passage. We object to the mandated imports which will seriously disrupt commodity markets for several crops such as peanuts and dairy.

The recently released study by Texas A&M shows cotton, rice and dairy are the big losers and only very minimal gains for corn and wheat. The American Corn Growers Association believes the GATT Treaty, added to the NAFTA treaty will mean we will put at risk our own domestic market in the United States by seeing cattle feeding and dairy production shift into Mexico to get cheaper labor and take advantage of lower environmental standards.

The GATT treaty mandated cuts in farm program spending will mean less dollars in farmers pockets'. The treaty will mean the agriculture committees will have less say in writing agriculture policy and the new World Trade Organization (WTO) will have the final say in our domestic farm policy. We have serious reservations in turning over policy decisions to people that have not been elected by anyone and have no responsibility to the people that are affected.

Our members do not understand the very direct cost to the United States treasury that come from cuts in tariffs and the other changes that GATT carries with it's passage. How can anyone justify those costs to the taxpayer but require disruption of domestic production?

We believe GATT becomes a harder package to sell to voters the more light that is shed on the treaty. A better investment for our money might be sending our negotiators to the same schools that the Europeans and the Japanese learn how to protect their nations' interest.

As corn farmers we are concerned about the economic health of one of our best customer countries, the United States! Our domestic market is our largest and best customer. A healthy domestic economy means customers for U.S. produced food and fiber. That economy will not be helped in trading good paying manufacturing jobs for minimum wage service sector employment.

We also believe that a healthy US economy is important to the rest of the world. Recent problems in Japan and Germany have been tied to the recent economic problems we have faced in the United States.

A recognition of the potential contribution of agriculture through growth of traditional markets such as cattle and poultry feed, plus an emphasis upon added new markets for ethanol, industrial uses, and biodegradable cornstarch products could help avoid such problems in the future. When adopted into governmental policy, it could have more potential for corn than the claimed markets from GATT and NAFTA.

An example is provided by the current considerations by the EPA that could require 30 percent of all oxygenates used in reformulated gasoline come from a renewable source, such as ethanol. By the adoption of such policies, our government will help ensure growth for new products, and help reduce our dependence upon imported petroleum.

It means that the need for ethanol which was evident as long ago as the oil embargo crisis of the 1970's has been realized and will have a role in a new national energy strategy.

It also means that agriculture and farmers will be given the opportunity to develop the continual supply of feed-stock which has been a concern to financiers and marketers who have in the past been concerned about the supply of such feed-stock.

These companies are not concerned about the price, they are concerned about availability. We have never seen the situation where if there was a price for corn, that corn would not be produced. It is important that demand be developed in a growing, steady manner than the wild fluctuations we have seen in the past.

The 1995 Farm Bill must above all address the farm income question. There are many that do not want to even say farm income, but as farmers, we will judge this bill on the bottom line...farm income!

ACGA and TCGA believes the loan rate should be raised to narrow the gap between target and loan rates which will reduce government outlays. For this program to operate correctly, supply management must be used. The CRP must be extended to protect the gains made in conservation. USDA estimates slightly less than a 9 billion bushel corn crop for this year. We certainly don't need more acres in corn.

If the acres come back into crops, payments will be made and program costs will increase. This money would be better spent to extend the CRP contracts with some modifications.

We would have a strategic corn reserve to meet a disaster if federal officials had not decided to empty the reserve to lower prices. We must have a food and feed reserve to protect farmers and consumers in case of an emergency.

REVIEW OF GENERAL OUTLOOK FOR FARM ECONOMY AND COMMODITY PROGRAMS

THURSDAY, JULY 14, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:35 a.m., in room 1302, Longworth House Office Building, Hon. Bill Sarpalius (chairman of the subcommittee) presiding.

Present: Representatives Long, Dooley, Minge, Pomeroy, Stenholm, Barlow, Williams, Emerson, Ewing, Doolittle, and Dickey.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Gary R. Mitchell, minority staff director; Glenda L. Temple, clerk; Caroline Anderson, James A. Davis, Merv Yetley, and Neil P. Moseman.

OPENING STATEMENT OF HON. BILL SARPALIUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SARPALIUS. The subcommittee will come to order.

There is no question that the 1995 farm bill will be budget driven. The House recently voted in favor of reducing Ag appropriations by 10 percent, or \$3 billion in real money, for fiscal year 1995. This reduction is \$600 million less than what the administration requested.

The agricultural entitlement program can be viewed as a success story for all other entitlement programs, as it is the only entitlement program to see a decline in monetary outlays. Agricultural outlays in regards to the commodity programs, excluding food stamps and the WIC programs, have decreased from a high of \$26 billion in 1986, down to an estimated \$12 billion in 1994, with further reductions expected in 1995.

Agriculture continues to play a role in both the NAFTA and the pending GATT trade agreements, as evidenced in the 42.5 billion dollars' worth of agricultural exports for 1993-1994, with a positive net trade balance of \$18 billion per year.

Today's hearing is a continuation of our previous hearing held June 29, on this same topic regarding the economic forecast for production agriculture. Keith Collins, Acting Administrator for Economics with the USDA, presented an excellent, in-depth testimony at our last hearing detailing the administration's economic projections for farm commodities. In particular, Mr. Collins mentioned the possibility of: One-half to two-thirds of CRP land returning to

production; 1994 being the first year since the early eighties that farmers do not have idle acreage eligible for program payments and price support loans; increased planting flexibility; maintaining U.S. competitiveness in the world market in regards to marketing loans and EEP; and the decrease in CCC outlays.

Additionally, all of our producer groups further testified as to the effects of NAFTA, GATT, budget constraints, and the 1995 farm bill on the farm economy and their respective commodities.

Once again, my objective for this morning is to conduct an informative hearing in order for my colleagues and I to more fully comprehend the economic problems facing our farmers today, and to find a way to work together to solve these problems.

Again, I wish to thank all of you for your attendance and being here at this hearing today, and I want to call on my friend from the State of Missouri if he would like to make any opening remarks.

OPENING STATEMENT OF HON. BILL EMERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. EMERSON. Thank you, Mr. Chairman.

First of all, I want to thank you for holding this hearing. It is an important forum on a matter crucial to our farming and ranching communities. Today, we are going to have the opportunity to take a primary overview of our agricultural economy in order to reinforce the critical nature of our Federal farm programs. Current Federal farm programs continue to play a significant role in sustaining economic enterprise among various agribusinesses and related Main Street commerce.

The makeup of any Federal farm program encompasses a broad range of issues. With the increasing complexity of domestic and international consumer and producer issues, balancing these interests poses a significant challenge to the future of Federal farm programs. I hope we can today begin the process of molding and shaping the direction of American agricultural policy while laying the groundwork for future generations of rural Americans.

Unfortunately, as you mentioned, the budget constraints, and, unfortunately, production agriculture has been impeded through the continued erosion of the farm budget, and particularly so this year. The agriculture appropriations bill recently approved by the full House is a prime example of how this administration and the Congress are slashing into the agriculture budget in order to redirect money to the social agenda. And, clearly, this is a path that the interests of production agriculture and the small communities that depend on our farming and ranching efforts can ill afford.

Further inhibiting production agriculture, the administration's Clean Water Act reauthorization plan could easily make the existence of farm programs a mute point, as this plan would effectively drive small to mid-size family farm operations out of agricultural production. In a business such as agriculture, where profit margins are vulnerable to weather and marketing conditions beyond the control of the local producer, the imposition of more red tape, more federally mandated land-use management plans, more EPA mandates, and more uncontrollable, built-in costs, such as those created

by the EPA's citizen action suit proposal, can only guarantee the erosion of marginally profitable family farm operations.

Securing the plentiful supply of food and agricultural products for the consumers of this Nation and, very often, the rest of the world, has got to remain the principal reasoning behind our continued agricultural existence.

While the 1990 farm law solidified our world position, it is clear that we must take the current farm condition, along with the present Federal farm programs, and build upon them so that American agriculture will prosper from now into the future. Likewise, this is going to entail a firm commitment from the administration to protect the investment in our agricultural livelihood nationwide.

Let us also bear in mind that the formulation and continued implementation of Federal farm policy has had a profound impact upon the creation and sustaining of jobs throughout rural America. The economic vitality of our local communities continues to hinge on the success of our agricultural and related industries.

A prosperous rural economy means greater opportunities for the local folks who sell the farm implements, that drive the grain and livestock trucks, deliver the feed, market the seed and fertilizer, and process the fruits of our harvest so as to maintain our position as the most efficient and reliable supplier of the world's food needs.

So Mr. Chairman, I look forward to working with you and our other subcommittee and full committee members to achieve this goal.

Mr. SARPALIUS. Thank you.

Would our distinguished chairman of the full Ag Committee, Chairman de la Garza, like to make any remarks?

The CHAIRMAN. No, thank you, Mr. Chairman, I would not like to take time away from the witnesses who are here. Thank you very much.

Mr. SARPALIUS. Thank you.

Our first panel will be Dr. Abner Womack, who is the codirector of Food and Agricultural Policy Research Institute, University of Missouri-Columbia; and Dr. Edward Smith with the agricultural and food policy center, Texas A&M University.

Let me mention that your entire written statements are part of the record and if you would like to summarize, we would certainly appreciate it.

STATEMENT OF ABNER WOMACK, CODIRECTOR, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE—FAPRI, UNIVERSITY OF MISSOURI-COLUMBIA

Mr. WOMACK. Thank you, Mr. Chairman.

As you mentioned, I am a member of a large consortium of universities, included in the Food and Ag Policy Research Institute, and we have recently completed our baseline analysis plus other studies that I will use as a reference for my comments.

As you know, we are supported by congressional funds to evaluate policy options as an outside neutral opinion. Some observations relative to our research, many of these have already been discussed and are areas of concern with the committee, but I think our research would reconfirm your concerns.

First of all, this voluntary farm program is fairly delicately balanced around a broad set of objectives in order to make it work. Our analysis indicates it should cost somewhere between \$10 to \$14 billion a year.

The current outlook with funding sustained at this level is fairly optimistic for crops and livestock. On the crop side, net returns are at traditional levels reflecting low set-asides and improvement input costs, even though Government supports have been declining. Livestock signals are mixed, but have benefited from the lower loan rates and improved input situation.

GATT and NAFTA in general appear to be slow but improving winners for most of agriculture, but concern is down the road involving the current pattern of budget cuts.

We had a first look at this potential in April of 1993 when the FAPRI team was asked to analyze the impact of a \$5 billion budget cut, where savings came in the Ag sector primarily from three areas, increasing the flex from 15 to 25 percent, eliminating 0/92 and 50/92, and increasing assessments on dairy and nonprogram crops.

We estimated very little difference between program participants and nonparticipants by the end of the decade in terms of their net returns. And this begins to signal several red flags.

First of all, the underpinning of this program is beginning to unravel with not enough money to hold farmers in the programs; second, this implies less than normal funding than we have traditionally had for the conservation and environmental thrust; third, less than normal funding for Government stock activity, for food security; fourth, greater risk to the livestock industry with higher input cost variability; fifth, greater risk in maintaining or ensuring an adequate trade supply; sixth, less than normal funds for food assistance; and seventh, greater risk for food price increases.

We have had the opportunity to evaluate the implications of a drought of the magnitude of 1988 under the current stock situation, and even though we may have a good crop coming this year, if we should have a drought of that magnitude in the next 3 years, it would have a devastating impact on the livestock and crop sector with serious consequences for the food prices.

So, in general, there is a major concern with regard to the ability to adequately maintain a viable agricultural industry under this type of voluntary farm program structure if budget cuts of previous magnitudes continue.

Again, Mr. Chairman, I thank you for the opportunity to appear before the subcommittee. FAPRI and other members of our consortium look forward to working with the subcommittee and the full committee on the debate regarding the 1995 farm bill.

[The prepared statement of Mr. Womack appears at the conclusion of the hearing.]

Mr. SARPALIUS. NEXT Dr. Smith.

**STATEMENT OF EDWARD G. SMITH, EXTENSION ECONOMIST,
MARKETING AND POLICY, AGRICULTURAL AND FOOD POLICY
CENTER, DEPARTMENT OF AGRICULTURAL ECONOMICS,
TEXAS A&M UNIVERSITY**

Mr. SMITH. Thank you, Mr. Chairman.

I am Ed Smith with the Texas A&M University. We are one of the consortium universities that Abner discussed in his opening statement. Our role in this analytical team at Texas A&M is to monitor the economic well-being of farms and ranches across the United States, and if I could refer you to the testimony on figure 1, page 6, it gives you just a brief overview of where these 75-some-odd farms and ranches in the United States are located.

In the interest of brevity, at the request of the committee, I am going to focus comments today on basically the 35 farms that have wheat, feed grains, cotton, and rice as their primary resource, and save the livestock and dairy for another time.

What we do in consultation with the land-grant systems in each of the States where we have a farm, and with producer panels, is to work together to describe the economic activity that takes place on one of these farms. In fact on each farm in each region we can simulate the economic activity of changes in farm policy. And today I am going to talk about the impact of extending the 1990 farm bill parameters through the year 2001, utilizing the baseline that Abner discussed that FAPRI projects and using FAPRI's prices and program parameters through the year 2001.

When I walk through it, I want to mention the basic assumptions that we use on these farms. Just to set the tone, we assume each farm starts with a 20 percent debt on intermediate and long-term assets. That is based on consultation with the panel and a USDA production cost and return survey.

Our farms are structured in such a way that the payment limits are not restrictive in this analysis. Each farm has to contribute between \$25,000 and \$50,000 annually to family living or return to management, if you will, and we do not consider off-farm income in simulations of these operations.

General results, then, as we extend the farm bill parameters out to the year 2001, on basically all farms we see a cost-price squeeze. As we run those FAPRI parameters on these crop farms across the country, we see revenues increase on average about 11 percent by the year 2001 from a base period of 1992. We see expenses expand in the neighborhood of 25 percent or greater.

As you know, FAPRI in their projections did not project farm level prices for any of the program commodities to exceed target price levels. Therefore, revenues are essentially frozen while input costs increase with inflation and, thus, put pressure on farm income on all of the farms that we studied.

While all of our farms feel the pressure of this cost-price squeeze, the large farms appear more resilient. While large farms are hurt, they hold up a little better than our moderate scale farms in each region. The exception that we see to that is in the rice operations where the large and moderate size farms appear equally vulnerable.

Cotton, wheat, and rice farms, in these panels, are more reliant on Government payments, receiving in excess of 15 percent of gross cash receipts from direct Government payment sources. Therefore, farmers growing these crops are more vulnerable to the actions that reduce support.

I left out feed grains in that list. Most of our feed grain programs have soybeans as a component in its crop mix, and, therefore, are

not impacted by changes in the target price and NFA as directly as are the more monoculture farms of cotton, wheat, and rice that we have in our data set.

As we look across the 35 farms where we might see hotspots, certainly we see structural hotspots that I indicated in terms of the moderate scale farms being pressured by this cost-price squeeze. Feed grain farms, are somewhat better off. The hotspots that we would see among the crops would occur first in wheat and rice farms.

If I may take you through the individual commodities, just in a brief overview. We monitor 10 feed grain farms across the United States, what we call moderate and large scale farms in Iowa, Missouri, Nebraska, Texas, and South Carolina. As we look at those farms under the FAPRI baseline projection 6 of those 10 operations gain in net worth over the time period.

Four of the feed grain farms lose equity and all four of those farms are moderate sized operations. The only moderate size operation we see growing in real equity is our feed grain farm in South Carolina.

For illustrative purposes, if you could turn to figure 2 on page 13 of the testimony, I will just briefly walk you through this Iowa moderate farm in terms of what we have in the testimony and then leave it up to you to examine most of the other charts.

If we turn to the figure, for each of the graphs in the upper left-hand corner we show the gross receipts over the period as estimated by FAPRI and translated to these farm operations. On this Iowa farm, IGA760 acres, the receipts are trending up marginally over the period. That graph will give you a visual depiction of the level of farm size. You see that moderate Iowa farm is running at a level of about \$200,000 in gross receipts.

Immediately below that, the left-hand lower corner, we have annual net cash farm income. It is total cash receipts, including Government payments, less cash expenses. So that income would have to cover family living, principal payments, taxes, those types of things. You can see the cost-price squeeze showing up on the farm as those net cash farm incomes drop as we move out to the year 2001.

In the upper right-hand corner is a graph called change in real net worth. That graph depicts the ability of this farm to maintain equity. If the graph line was at zero, that meant that the farm was just able to maintain the real purchasing power of that equity in the year of 1992.

What we see on this Iowa farm is that it is able to maintain equity up until about 1997. The farm then loses to the neighborhood of about 15 percent of its real equity by the year 2001 under current projections.

You can relate that graph to the net cash farm income. As a rule of thumb, Congressmen, when net cash income on these moderate sized operations fall below \$50 thousand or so, they are not able to cover the assumed family living cash requirements, cover their principal payments and any tax, social security taxes that they may be required to pay.

In the lower right-hand corner of the graph, it says probability of remaining solvent. In our models, what we do is we have a bank-

er that looks at the debt-to-asset ratio at the end of any year, or actually the equity-to-asset ratio if that equity-to-asset ratio falls below 15 percent, then that farm is declared insolvent. So while this farm is losing net worth, it does not fall below the 15 percent net equity-to-asset ratio, therefore, the farm was not declared insolvent.

Just glancing through those farms, you would see the large Iowa farm is about 1½ times the moderate size farm, in terms of receipts. The farm is able to grow throughout the period. It is one of the most efficient farms that we have in our data base relative to cost per dollar of revenue, running about 56 cents. That farm experienced growth throughout the period.

If we turn to the next graph on the Texas northern plains, it is in Moore County, north of Amarillo, in the Sunray region, you can see the moderate sized farms, like its Iowa counterpart, have a problem out in 1996 or 1997 in terms of losing real equity.

Its large scale counterpart in the same region, grows like its large scale counterpart in the north. However, you know that it, too, starts feeling the pressure of the cost-price squeeze in 1997, 1998, and that relative real growth starts tailing off in 1999 and the year 2000.

We monitor eight wheat farms, two in Washington, two in North Dakota, two in Kansas, and two the Colorado. I have included the Kansas operations for this analysis here today on figures 8 and 9, pages 19 and 20.

In Kansas, you notice that this wheat farm is considerably smaller than the corn farm, in the \$100,000 to \$150,000 gross receipts range. This farm is significantly impacted over the period. It does not have the size and scale to fund family living. It is going to have to subsidize from off-farm sources. The farm loses real net worth in 1992 and 1993. It basically held its own under the projections, 1994 through 2001. This farm loses 82 percent of the equity on the operation, and by the year 2001 would effectively be out of business.

It is not atypical of the other wheat farms we have in the data base set. Only the large operation in and the Palouse region of Washington State is able to maintain equity under the period. All other seven wheat farms lose real equity. And even that larger operation in Oregon, is just able to maintain equity. It does not grow to any real extent. It just holds it own.

If we turn to cotton, I have included a couple of regions, the Texas southern high plains, which is south of Lubbock in Dawson County and the California operations that are in the southern San Joaquin Valley in California, in Kern County.

Basically, the same type story is seen in the southern plains cotton farms. That moderate scale operation is 1,300 acres. It is a skip row, which means they have 800 to 900 acres of cotton planted. Again, the levels of net income declined from the cost-price squeeze and the pressure around family living means that this farm effectively goes out of business under the analysis if something does not change by the year 2001.

Its large scale counterpart in the same region is in the \$400,000 to \$500,000 gross receipt range. It is able to maintain its equity out to 1999, and then it loses in the last years of the analysis from the

cost-price squeeze. Again, the income trend is the same. For this farm the solvency ratios on that moderate cotton farm start to decline. They decline also on the large operation.

We have six cotton farms in Texas, two in the southern plains region, two in the rolling plains region north of Abilene, Jones County, one in the coastal bend and one in central Texas, north of Austin. We have these two California farms and two Mississippi farms.

The farms that are losing equity are representative of the farms in the rolling plains. Also, losing equity, are the farms in the Mississippi Delta.

The California operations, you see both of those farms gain equity, both the moderate scale and the large scale. Again, they feel the cost-price pinch, but they have enough income to cover capital replacement, family living, and to grow somewhat, although that growth is tailing off in the last years of the analysis.

We also see growth in the coastal bend and central Texas operation, in the same magnitudes as the California operations.

We monitor seven rice farms, two in California; two west of Houston, in Texas; two in the Missouri boot hill; one in Arkansas. As the largest producing State, I have included the Arkansas chart for your reference.

Again, there is a cost-price squeeze in rice. This Arkansas farm loses 14 percent of its equity by the year 2001. Of the seven rice farms that we monitor across the country, only the moderate Missouri operation is able to experience any real growth, and that Missouri operation is about 60 percent dependent on rice for its receipts. Feed grains and soybeans are the other 40 percent of the revenues on that operation.

In summary, all farms are feeling pressure from the cost-price squeeze under frozen target prices and increasing input costs. Larger farms, although hurt, appear more resilient than our moderate scale operations. There are significant hotspots on those farms that are heavily dependent on wheat and rice. Feed grain operations appear more resilient under the analysis.

I will be happy to answer any questions.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you very much. Both of you gave excellent testimony.

Mr. SARPALIUS. Dr. Smith, according to all these graphs you have here for us, just about every one of them show a decline in annual cash farm income, a decline in the real net worth, in just about every commodity you mention, almost every segment across the country.

In determining these graphs, did you account for any of the trade agreements, like NAFTA or GATT or anything that we are looking at down the road on that?

Mr. SMITH. Not in this analysis, Mr. Chairman. This analysis just looked at the baseline that Dr. Womack talked about. Their April baseline.

We have analyzed the impact of GATT. In that analysis we saw improvement in the wheat and feed grain operations, basically no change in cotton and rice. Although we would see only a 7 to 10

cent improvement in wheat and feed grains, it would help. It does not change the general direction of those curves, it would just move it up somewhat. But primarily beneficiaries are wheat and feed grain. Soybeans, cotton, and rice hold their own under the GATT analysis that we conducted with FAPRI.

Mr. SARPALIUS. What would you consider to be the one driving factor that is pushing all of these farms down. Down to the point where there is just no way that they can exist?

Mr. SMITH. It is basically that on the program crop farms that we have here, their revenues are effectively frozen through frozen target prices and frozen yields. Their input costs are not frozen and increase at 25 percent over the period.

You put that input cost going up with basically effectively frozen revenue, and the cost-price squeeze is pressing net cash income down. It is forcing these farms to try to get the economies of scale—larger operations. We are likely to see more consolidation.

Those smaller, moderate sized, what we call the bread and butter moderate sized farms in each region, effectively does not have the net cash income to sustain a \$20,000 to \$25,000 family living withdrawal that we assume for them. Therefore, having to contribute to living expenses, it is forcing that farm to refinance itself and pulling it down in the longer term.

We will see these farms most likely either get larger, move into other alternatives and/or to supplement these farm operations, as many have already, with off-farm employment, if that off-farm employment exists in a region. Many of these are in areas where off-farm employment opportunities may be limited.

Mr. SARPALIUS. When you back up on these graphs, you start at 1992, and I am sure that when you did these models there was no way of predicting at that time weather conditions that occurred throughout the country with the floods that we had, where some of these crops, actually, they did well last year.

I am curious, as you look down the road on these graphs, they do not reflect incidents like that, or if they do not reflect opportunities of additional markets, and we are under the constraints, as we are as I said in my opening statement, and Mr. Emerson did, that everybody is budget driven. What recommendation do you give this subcommittee if we are going to be looking at a farm bill next year, and what can we do to give some assurances of increasing that farm income under the conditions that we are faced with on the Ag Committee?

Mr. SMITH. Let me preface this comment with, one, Mr. Chairman, and it is in the paper but I should have made it clear in the opening. Our simulations actually begin 1994. In 1992 and 1993, what you might see as discrepancies, say, between the northern high plains grain farm and the Iowa operation. It does take into account the actual yield responses and price responses in those years and the simulation is for the outyears which assumes average yield. That is why we see revenues fall in 1993 in the Iowa farm and revenues increase in the northern plains.

As you know, irrigated agriculture, did not take the yield loss they did in Iowa due to the floods and we got the positive impact of the price.

As far as your question in the outyears, there is a myriad of things farmers and ranchers and policymakers can do to try to improve the economic well-being of any of these farms. And we get that question a number of times. It is virtually impossible to come out with a system of best practices that might occur. Our best answer for you at this point in responding to that type of question is we develop what we call net income adjustments. They are measures of what type of increase in receipts we would have to see on these operations in order for them to be able to maintain real equity.

In those feed grain operations, if we looked at those farms, we would have to see an infusion relative to their current cash receipts of from 4 to 7 percent. Or we would have to see their cost of production decline relative to the receipts until their economic improvement approximated 4 to 7 percent of the cash receipts on those farms. That probably is achievable within research, education on the efficiency side, it probably is achievable in marketing, but there is going to be pressure on those moderate farms. But 4 to 7 percent likely is achievable.

Same thing when we go to the wheat farms. They are more vulnerable. We would have to see revenue on those farms that are losing equity on those moderate scale operations in the neighborhood of 15 to 20 percent. Likely that that type of operation is going to have trouble under any policy scenario, any research scenario, improved technology scenario, or improved management scenario as we move out in the future.

There is going to be significant transition in those wheat farms and consolidation as those farms try to reach greater economies of scale. It is going to take necessary financing. Alternatively those farms are likely to join part-time hobby farming operations.

In cotton, again, the farms that lost money or are losing real net worth in cotton, other than that moderate sized southern plains farm which just does not have the economy of scale to generate sufficient income could maintain equity if they could improve their receipts in a 4 to 8 percent range.

The rice farms, again, feel pressure across the board. They require a 11- to 15-percent increase in receipts before those farms could maintain equity.

Now, how as a policymaking body you could achieve those levels of returns from a Government standpoint, given the budget pressure, is what you guys are paid for. But that is the level of returns we have to see for those farms, Mr. Chairman.

Mr. SARPALIUS. Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

We who are involved in agriculture on a daily basis know that the ultimate objective of agricultural programs is to provide and assist the American consuming public with an adequate supply of food and fiber at a reasonable cost to the consumer. That objective, which is very real, is very often lost in its communication to the American public.

We read stories of a tax on agricultural programs and confusion in the public mind about what agricultural programs are really all about; the need to have stability in our agricultural system.

Dr. Womack, you, in your opening statement, I think put exceedingly well the current farm program is delicately balanced around a set of interlinked objectives. These include adequate income for crop and livestock producers. After all, that is only fair, given the fact that they face uncertain markets, the vagaries of nature—a lot of factors that other people in small business do not have to contend with—an adequate supply of food at reasonable prices, maintaining a variable export market, maintaining adequate stocks in the event of short crops, protecting the input industry, encouraging conservation, and environmentally sound practices, and the economic enhancement of rural areas, and all of this to be achieved at the least cost to the Government.

Now, you have noted that traditionally meeting these objectives has required outlays of around \$10 to \$14 billion a year. And you suggest that managing this type of program entailing these objectives at significantly below these levels will not achieve all of those objectives. Budget pressures, you say, are beginning to unravel the necessary management options for a balanced set of objectives, and you say that red flags are beginning to emerge, based on your analysis, that will signal the end of traditional farm programs. And incentives for remaining in farm programs will be extremely low, and the Government stock activity for food security—I think that is an absolutely critical two words there—that the Government stock activity for food security will be nonexistent.

I think if the American public was aware of that, if this was to be adequately communicated to them, we would see a level of support out there for the maintenance of agriculture at no less a level than the current budgets allow for. Yet, there is this constant drumbeat that we are going to wring it out of the agricultural budget.

The chairman, regrettably, has just had to leave, but he has a famous chart he shows from time to time about how it has already been wrung out in agriculture and there is not anything more to wring out.

I think that this is a very serious situation, and you have gone on to say that these risks and their implications represent the tough questions to be dealt with during the 1995 farm bill debate, and I could not agree with you more. You stated it very well.

Anything you can do, and you do have credibility. I mean, we are just a bunch of politicians who go out and preach this message, but theoretically we have very selfish interests to serve. But you are highly respected people in your knowledge of agriculture and in the academic world, and I think that you can speak with an objectivity that we cannot.

I encourage you to promote this message wherever you can, because I think it is very real and that the American people need to have a far greater understanding of what is at stake in these programs.

In my opening statement I criticized somewhat the budget shifts that have occurred. We are shifting from programs that meet the objectives that you say we must address in the 1995 farm bill. We are shifting resources in order to address social concerns, which are very real and very legitimate. But if we do not have adequate food

security, all of the resources in the world that we may put in the social programs are not going to do us that much good.

And consequently, I am very alarmed by your statement, having worked with you for many years. I know you are not prone to overstatement, but you have sounded here an alarm that I think is one that should be taken very seriously, and I am glad that you have focused, as you have, to present this real picture to us.

Now, you lay out some large areas of concern that you have based on the statement that I have just referred to, and outlined for us the consequences. What I want to ask you, and I regret we are limited in time, maybe we can come back, what I want to ask you is not so much to answer today, I do not think you can answer today, but in your list of consequences here, as we approach the writing of the farm bill next year, and I know that you two gentlemen will be very much involved with us, as you always have been as we come to these undertakings, that you would be thinking very seriously about how you would prioritize those consequences.

If we are going to get into this syndrome where ultimately our very food security may be threatened, what are the different lines of defense that we had better be preparing ourselves for? You give us a whole list of them here, but they are not prioritized.

And as you are pondering and thinking to next January and the commencement of the process here, I hope you will ponder very seriously the prioritization of the consequences of what dramatically reduced budgets for agricultural programs are going to present us with.

I am sorry we are on such limited time, but your statement is profound, and I hope everyone here will at least have a chance to have a copy of the statement and read it and think very seriously about it.

Thank you, Mr. Chairman.

Mr. SARPALIUS. Ms. Long.

Ms. LONG. I have no questions, thank you.

Mr. SARPALIUS. Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman. I have some questions in light of some of the information that both of you presented.

Even in light of what we see as some deterioration in net farm income and perhaps equity positions of various farms, do either of you expect that you will see any land come out of production?

Mr. WOMACK. We have made the baseline assumption that CRP would not be extended. And the analysis is evaluated around the probability that about 50 percent, 60 percent of that land would come back into production. So the rest, or the remainder of the land either goes under 0/85 or back into pasture or is left fallow.

So about 60 percent of the land that is in the CRP probably would be returned if we do not extend it, and that would mean that we would increase our area across all of our commodities gradually over 1 year of about 1,500,000 acres a year, about 15 million acres over the next 10 years. Very gradual.

Mr. DOOLEY. So neither of you would anticipate that we would see a decline in production of the basic farm program commodities under the baseline assumptions?

Mr. WOMACK. No, we have a gradual improvement over time.

Mr. DOOLEY. I see, gradual improvement. And that is where I come back to. The issue is, is our food security threatened even under this scenario, even where there will be a realignment in some of our farms. But production in terms of U.S. aggregate production, we should not expect to see any real deterioration? In fact, we are going to see some modest increase?

Mr. WOMACK. Well, it is again associated with the risks that we are getting into without carrying Government stocks. Traditionally, we have carried, and we do have \$150 million, I think, in legislation for wheat stocks, wheat reserves. But we do not have that kind of security in other stocks and we have gotten low here recently. And with the 36 million acres in the conservation reserve program, we are running very low set-asides that has been posited for the crop side. But on the bottom side of it, these stocks are not replenishing.

The alarming side, we have run two analyses that are alarming and they set the parameters, I guess the edges, and one of them is the analysis I discussed with another \$5 billion cut. That just untangles the program with regard to incentives.

The second one we have run that is a bit alarming, is that in 1990, Chairman de la Garza called our unit and asked us to make a run to demonstrate the relationship between farm programs and the consumer food security, so it really gets at your question.

In 1990, we had just come through the 1988 drought. So what we did to try to make that statement was that we took the 1988 drought and reran it, but we reran it without all those stocks we had. We had about 4.3 billion bushels of corn. We reran it with 2 billion, which, incidentally, is below where we are now. And when we did that, it shot food prices up over a 5-year period of about \$40 billion. And the net of it was that the stocks that we were carrying cost about \$15 billion. So \$25 billion was saved and really the consuming public did not know that.

So always when we look at the programs, and Mr. Emerson is correct, we will go down that list and try to find where the vulnerabilities are, and that vulnerability is coming out higher than we traditionally have had it the way we are currently structured in our farm program.

Mr. DOOLEY. What would be the expectation if we came up with a mechanism to ensure the maintaining stocks that would eliminate some of the potential vulnerabilities in terms of the food security? What would be the expectation of the impact of a program of that nature on net farm income?

Mr. WOMACK. I think it will turn out to be associated with what happens to the livestock industry and eventually the consumer, but a severe drought really works over our livestock industry and 3 years down the road we lose demand for our major crops. So it gets our livestock sector then it turns around and picks us up on the crop side.

So to let that go, significantly get out of line, has longer term implications. Many will argue the market will carry those stocks, but at the moment we need to reexamine that issue and determine whether we really feel that that is the case.

We are not exactly free market here with 36 million acres in the conservation reserve. And that fit well previously, but the question

is, does it fit well now with the other things we are doing, that level of reserves.

Mr. DOOLEY. Just one final question. In the baseline, was there any consideration for increase yield per acres?

Mr. WOMACK. Yes. We have a technological increase at the rate of trends, about 1½ bushels a year of corn, ½ a bushel of soybean and so forth.

Mr. DOOLEY. Thank you very much.

Mr. SARPALIUS. Mr. Minge.

Mr. MINGE. I read with interest, Dr. Womack, your statement and I am wondering if there is anything that you could say to amplify the comments about industrial uses of feed grains and vegetable oil that would indicate whether this development, especially with ethanol, is expected to have much of an impact on price?

Dr. WOMACK. We do have ethanol built into our system now, and it is one of the sustaining factors on the feed grain side at the moment that has been a positive force in the demand. Especially with our export side being under pressure. And that is another area of concern, although I did not put it in the list of priorities. But certainly it is beneficial to agriculture to push in those new directions as much as we can, and that should be mixed into the equation when we look at the food security side.

I think if we reexamine again the stock issue, we can have all those things, we can push for all of it, but we need to be careful about the balance. It is just to say that the pressures that we have now with regard to this delicately managed farm program, it is a voluntary program and it takes a certain amount of money to achieve all these things. As we pull them back, some are going to drop out. And I think all of them are possible. And I do not want to alarm anyone, they are certainly possible, but we just run greater risks when we go in and pull money without thinking about all of the objectives.

Mr. MINGE. If the ethanol program, that is the reformulated gasoline program and the provision that 30 percent of the fuels are to have a renewable fuel additive at the 10 percent level, if that were derailed by litigation or otherwise, if it ended, what do you expect would be the decrease in corn prices?

Mr. WOMACK. Well, about a 100 million bushel decrease in corn demand within the year after the crop is gone is about 5 to 7 cents. So that we could increase our export market, for example by 100 million bushels, price should increase about 5 to 7 cents, or if we decrease 100 million bushels domestic price will decline 5 to 7 cents, the next year you will see it come back in increased ARPS.

Mr. MINGE. One debate that has raged is whether the price pressure on farmers inevitably leads to larger scale operation. Do you have any opinion on that?

Mr. WOMACK. I think my colleague from Texas might be better equipped to answer that question.

Mr. MINGE. OK, Dr. Smith.

Mr. SMITH. I think certainly the observation that we have on the panel farms again are that those larger farms are a little more resilient. They are hurt but they are a little more resilient. They do experience some economy of scale in terms of equipment and labor

that we do not have, in most instances, on our moderate scale counterpart.

Unless there is off-farm opportunity with which to subsidize that farming operation, these pressures, I suspect, are going to push for greater consolidation in agriculture.

Mr. MINGE. As price pressure has this effect on pushing toward consolidation or increased efficiency in operation, do you see that putting more stress, less stress on the environment where the farming operation is conducted?

Is it harder to implement and maintain sound environmental practices in the farming operation if there is financial stress on that farming unit?

Mr. SMITH. Certainly with financial stress. I was getting into the question—I thought the question was leading to whether a larger scale could be better able to handle environmental regulations.

Mr. MINGE. Well, that is next.

Mr. SMITH. Yes, certainly with financial pressure, you are going to try to maintain your base program, and on the margins those things could take a hit, yes.

Mr. MINGE. Does it increase the pressure too toward larger scale farming?

Mr. SMITH. I did not—

Mr. MINGE. In a larger scale farm is there more pressure on the environment?

Mr. SMITH. More pressure on the environment?

Mr. MINGE. Yes.

Mr. SMITH. I would not necessarily make that conclusion.

Mr. MINGE. That would be a neutral factor.

Mr. SMITH. Yes.

Mr. MINGE. There has been a lot of discussion about sustainable agriculture and whatever that means in terms of a strict definition. Do you see that these price pressures will make it more difficult for farmers to think to follow practices that generally are included within that broad term or that phrase, sustainable agriculture?

Mr. SMITH. The farm is going to be driven by economic objectives first and foremost. That cost-price pressure is going to pressure those farming operations to operate within the economic realities given the resources that they have. If the environmental objective, so to speak, or practice that is required on that farming operation is a cost and nonrevenue enhancing, then those types of environmental objectives would be put in jeopardy.

Mr. MINGE. Thank you.

Mr. SARPALIUS. Mr. Ewing.

Mr. EWING. I have no questions.

Mr. SARPALIUS. Mr. Barlow.

Mr. BARLOW. Going on the concerns that Mr. Minge has raised, if you get a dollar of increase in the price of corn, what does that do to, say, the cost of gasoline? Have you done any extrapolations along that line? Tying in the various levels of corn prices to liquid fuel prices.

Mr. WOMACK. We have done that, Mr. Barlow, and I can send you information but I cannot recall those numbers.

Mr. BARLOW. If you could for the record, I would appreciate it very much.

[The information follows:]

M E M O R A N D U M

*Food and Agricultural Policy
Research Institute FAPRI*

August 16, 1994

TO: General Commodity Subcommittee
Committee on Agriculture
U.S. House of Representatives

FROM: Abner W. Womack
Co-Director, Food and Agricultural Policy Research Institute
University of Missouri, Columbia, MO

SUBJECT: Relationship between the price of corn and the cost of gasoline. Line 939-950.

RE: HAG19525P, Page 41, line 951

Increases in corn prices will not likely effect the price of gasoline. However the use of corn for ethanol production is likely to decline. Estimates associated with the feed grain models of the Food and Agricultural Policy Research Institute suggest that corn price increases in the range of 10 percent above longer term average could result in an approximate 2 percent decline in corn uses for ethanol purposes. Likewise our model indicates that a 10 percent increase in the price of fuels and related products, would encourage the use of corn for ethanol use by about two percent. Another significant variable in this equation is the estimated consequences for changes in the excise tax exemption. A 10 percent increase in the tax exemption yields an estimated 16 percent increase in the use of corn for ethanol purposes.

These model results tends to confirm major structures that prevail in this industry. First, there doesn't appear to be a direct link between increases in corn prices and increased ethanol (fuel) prices. The reason is that ethanol competes in the oxygenated fuel market with MTBE. There is a ready supply of MTBE both domestic and internationally. Increased feed stocks (corn) cost are for the most part absorbed by ethanol manufacturers as they are not in a position to pass on the additional costs. The same story applies for the regular fuels market where ethanol competes with regular gasolines--and is already above the price of regular unleaded. This economics confirms a traditional problem with agricultural based products for industrial uses. As long as these products are in adequate supply markets move smoothly. Shortages or conditions that lead to higher prices of feed stocks readily call in substitutes, normally from outside the agricultural industry.

This problem has been long recognized and debated. The solution lies in adequate reserves or forward pricing mechanisms that will assure a flow of products at fairly constant prices. Modeling systems such as those maintained by the Food and Agricultural Policy Research Institute can be helpful in examining options that leads to a course that compliments the balance of interests to agriculture and food supplies which take into account industrial growth of ag products.

Mr. BARLOW. Do you feel, both of you gentlemen, do you feel that there has been enough research analysis work done by the Department, for the sake of the Congress, to explore the infrastructures to give us an understanding of pricing and costs if we are going to be moving to using renewable resources?

Corn is the prime example now, but perhaps there are some other crops in coming years. What infrastructures are needed for storage and how are the economics going to be supported so that we do not run short? If there is a drought in 1 or 2 years and we get down to minimum levels in reserves, as we are now, could we be supporting the fuels industry; could we be supporting the transportation sector properly without massive price swings and dislocations? Do you think there has been enough research done along these lines in a forward thinking way?

Mr. WOMACK. I think the questions that you raise are exactly what we are being asked, and it will require more research.

One of the areas that is associated with your question is that if we are able, and others that have asked questions, if we are able to begin to move in a lot of directions industrially, what would that mean with regard to the rural community? And we are just beginning to crank up with similar projects that Mr. Smith talked about, representative farms. We are trying to come up with models that reflect a community and what community changes might occur if we move in that direction.

I think that could be very positive for our rural areas in a lot of respects. But we, along with the USDA, will have to do a lot of work to demonstrate that and I think we look forward to trying to do that.

Mr. BARLOW. My feeling is anything we can do to sell more crops and find more uses for our crops will help our rural communities. What I am particularly concerned about is if we do make the turn toward supplying, say 30 percent of the transportation fuels in the Nation, and then we find ourselves running into 2 or 3 years of drought or limited crop yields, what is that going to do? Is that going to throw us back to having to retrench? How can we hedge against that now with an infrastructure? How can we prepare to make sure that once we make the turn we are not going to have to double back and we will not run into food shortages as well, because we are burning the fuel in the tank?

Mr. WOMACK. I think the easier part of that question would be associated with some level of demand that we expect. And then the way we would back into the security part of it would be to look at the risks and find the appropriate level of stocks to carry us through those risks.

What will probably happen also as we move in that area, we will bring some marginal land in that we do not currently have with some of the biomass and other options. So, again, I believe if we look at it with regard to the total agricultural structure we can find the balance and push in those directions where those opportunities might exist.

Mr. BARLOW. One of the keys, as you said, would be maintaining the stocks. Would we have the storage capacity and distribution of storage capacity and characteristics of storage capacity on farm, river port, seaport storage capacities to service both food as well as

fuel needs? Do we have them now? Do we need to be looking for perhaps some infrastructure developments along these lines?

Mr. WOMACK. I would think that I would be more comfortable with research to determine if we really do. And I suspect if we turn in the direction and the level you are discussing there would be structural implications that need to be reexamined.

Mr. BARLOW. And would you supply for the committee, perhaps maybe in a letter form, what type of research you think needs to be done to make sure that we have infrastructure that if we ran into worse case scenarios, 2 or 3 years of drought or limited yields what type of infrastructure would you need to maintain fuel supplies within proper price ranges so we are not looking at \$1.50 or \$2 a gallon for gasoline, as well as bread at appropriate prices or the corn products that we consume at appropriate prices.

Mr. WOMACK. I would be delighted to do so.

Mr. BARLOW. Thank you. Thank you, Mr. Chairman.

[The information follows:]

M E M O R A N D U M

*Food and Agricultural Policy
Research Institute FAPRI*

August 19, 1994

TO: General Commodity Subcommittee
Committee on Agriculture
U.S. House of Representatives

FROM: Abner W. Womack
Co-Director, Food & Agricultural Policy Research Institute
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SUBJECT: Research Necessary to Determine the Adequate Level of Reserves to Insure a Balance
in Farm Program & Policy Management. Requested by Congressman Barlow. Line
1020-1029

RE: HAG19525P, Page 45, Line 1035

There are three steps associated with answering this question. First, a large scale econometrics model that reflects the basic structure of U.S. and foreign agriculture will be required. This implies a system large enough to reflect all the major land area for crop production in the world plus a strong representation of all the major livestock and dairy industries. These models must be linked together, country by country, so that trade patterns are adequately reflected. Also the models must trace products from the farm gate to the retail market. They must react to information from the general economy that reflect major government policies and what is known about measures reflecting weather and climate.

Additional research components will be helpful, representative farm models similar to the type developed by Texas A & M University to give insight into farm level implications and rural community models that reflect impacts across the entire farming community.

All these models must react to government policy variables and contain direct linkage to measurable weather variables such as rainfall and temperature. The models must reflect analytical capability that are dynamic in nature, or have the capability to generate longer term projections.

Second, these models must be linked into one overall system such that weather impacts can be measured across all sectors. The models must be capable of generating a reasonable replication of historical events, once connected and also contain the capability of generating a longer term baseline of U.S. and World agriculture. The baseline would reflect among other things, no

changes in government policy and expected average weather or trend yields. If useful weather or climate foresight capability is available then it should be incorporated.

Third, several scenarios should be examined relative to weather shocks and various levels of industrial uses of agricultural products. One such scenario would be to replay the weather pattern of the 1970's, 80's and 90's on the current baseline. What would happen in the next 10 years if we experienced the sequence of droughts and good years containing the pattern of a 74, drought and freeze, 80, 83 and 88 drought? Added to this sequence would be varying levels of industrial uses of agricultural products. The system of interrelated equations would generate likely consequences for all crops, livestock, trade, food prices plus government costs and net farm income. Representative farm and community models would also reflect regional implications.

As these measured consequences are assessed it will be possible to consider levels of stocks and reserve land, both in the U.S. and the rest of the world that lead to the desired level of stability. This would mean finding a stock objective to shoot for or try to obtain. If stocks are below this level then set aside programs are adjusted to increase stocks and vice versa.

A second approach involves running this system of equations a large number of times where weather is chosen randomly. This process will also trace out price ranges and corresponding stock levels. A path of industrial uses at a planned rate of growth can also be included. The weather shocks would be taken from the historical pattern of weather observed over the last 100 years.

Ultimately a price band or range can be found for which we expect ag prices to remain a large percent of the time, 95%, if certain stock levels are attained. Likewise government exposure can be evaluated relative to the way the stocks are accumulated and released.

It is the case that a wide range of objectives can be measured in such an analytical system. The best combinations can be chosen that minimizes risk but also allows for adequate food supplies, income growth for farmers, reasonable supplies for exports, encourages conservation and environmental objectives, protects the input industry, complement rural development and minimizes government costs.

This system is similar to the structure currently being worked on in the combination of universities associated with the Food and Agricultural Policy Research Institute. Continuous work is necessary in maintaining these systems and several years of research are required to bring them up to speed. Agricultural policy is significantly enhanced with this kind of framework. Before decisions are required for legislation, these models can be utilized in assessing options that provide the best opportunities for the total food, fiber and agricultural industry.

Where should these systems reside? In several places as a guide, cross check and training ground. Prime candidates are the USDA, Economic Research Service (ERS), Congressional Budget Office, Office of Management and Budget and institutes such as FAPRI. Additionally, encouragement should be given to the development of similar systems in other trading countries around the world. Scenarios can be extremely beneficial in trying to untangle difficult problems

associated with growth, development and trade. If these models adequately reflect the underlying structure of the industry they can generate a longer term baseline as a frame of reference. This type system stands a strong chance of making viable contributions in the very complex environment of policy analysis and assessment. One of the significant contributions will be strategies that represent all sectors of agriculture including food production and food security.

Mr. SARPALIUS. I want to follow up on the gentleman from Kentucky's line of thought, and I appreciate your concern of stockpiles, but as we look back in the eighties, when we had a large amount of stockpiles in this country and a lot of your prices where they are driven by supply and demand, we had a large supply, demand was not as high, prices went down, farmers went broke.

And when you look into the 1990's and we have seen the world change, where there are surpluses in Europe, there are not many stockpiles in Russia, there are other areas around the world, and as we move to try to compete equally and fairly around the world, it is more difficult to try to reach that balance, especially when you are looking at a farm program that gives more flexibility to producers on what crops that grow, where you may have one year a good cotton year and next year a bunch of farmers want to grow cotton and prices go down. Maybe wheat prices go up. But a lot of it is controlled by that stockpile. And how do you reach that balance that—and also taking more into consideration now, probably more than ever the supplies around the world, as you compete equally in those world markets?

I appreciate your concern, but, at the same time, you have to also be careful that we do not have an overabundance. Am I right or wrong?

Mr. WOMACK. And that would be the primary driving force, I think, behind the voluntary program that we have. Because we really have an implicit stock objective, and when it gets too high, the next year we run our ARPS up and the next year we lower our ARPS. It has always had some Government stocks in it. Now the Government component is not there, and I think that is more the concern. Not that we could not keep things in balance.

But right now, if I were looking at the stock issue, I think I would look at the expected demand around the average prices that we have, and then try to establish, and I believe that is what we do, the area that is necessary to meet that demand, and then look at the uncertainties associated with the weather and add that component in as a stock component.

So we cannot project weather. We back into it by carrying reserves, and there is a level that we can find. If we go beyond it, we have overdone it; and if we go below it, we are at too much risk. And I think right now we are just running on the bottom side of that, and it really is a management, implicit management of this farm program because it is voluntary in nature.

Mr. SARPALIUS. But look at what happened last year with the floods that we had. Do you not think that the stockpiles that we had were at about the right level?

Mr. WOMACK. I think that is something that we could research, but I suspect that our comfort zone is about 1.8 to 2 billion bushels of corn and somewhere between 800 to 1 billion bushels of wheat. And our wheat now is continually run below what those traditional comfort zones have been, but again those are questions I think we can zero in on and give a lot more insight by asking that to our models and let it play with that risk and see what price ranges come back out of it.

Mr. SARPALIUS. Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

I think there is a general feeling that GATT, on its face, is a positive development for American agriculture, but we have a serious budget scoring issue involved that could result in a significant reduction in the agricultural budget, farm budget baseline. And recently Ms. Long, from Indiana, who was here and had to leave, introduced legislation to help ensure that we do not lose the dollar amount in the farm program baseline. A number of us have joined her in that legislation, and I am wondering if you have had the opportunity yet to look at that proposition and, if so, what do you think about it?

Mr. WOMACK. We did make two runs on the GATT this year. And it turns out to be a slow gradual winner and it saves Government money, over time, and it does increase net farm income. And it is an indication of a trap that we have gotten ourselves into with regard to how we measure the budget. Certainly agriculture is going to contribute over time, where we may have a near-term short cost, short-term cost, but it contributes over time quite significantly to the reduction in the cost of farm programs.

Mr. EMERSON. You would not disagree with your objective of keeping the funds in question as to how they are scored, of securing, trying to secure them into the agricultural budget baseline, though?

Mr. WOMACK. I think what would be a very positive step, would be to try to find all of those factors that agriculture contributes to and get recognition and credit for them. And the GATT would be one of those.

Mr. EMERSON. Thank you very much.

Mr. SARPALIUS. Any other questions?

Mr. DOOLEY. Just a follow-up. Regarding some of the programs that we are reducing to be GATT compatible, such as EEP, MPP, I imagine you have done an analysis on what the impact is on farm income, net farm income with EEP, and was that what you were addressing at the end?

Mr. WOMACK. Yes, we have done that.

Mr. DOOLEY. And it is positive?

Mr. WOMACK. Yes, it is. In fact, I have an estimate here—assuming that all countries participate according to the agreement—we have net farm income averaging better than \$1 billion a year. It goes up gradually, but it moves up above \$1 billion and stays above \$1 billion.

Mr. DOOLEY. And, again, that analysis is with the reduction in EEP under GATT?

Mr. WOMACK. It did contain the reduction of export enhancement. There were two things that really turned the GATT and it is controversial. The first thing that was very positive is that global income goes up over time. And it is better than a 1-percent increase in real GNP. The second thing is the constraints around the world are lowered for us to trade into, and we put those together and it turned out to be positive across the board for most all of livestock and crops; gradually increases over time.

Mr. DOOLEY. Prior to 1 year ago, what was the FAPRI analysis on the operation of EEP's impact on farm income, under the status quo with the dollars we were spending there?

Mr. WOMACK. I am not sure I can give it off the top of my head, but I do know that if you get another 100 million bushels of wheat as a result of our enhancement, it is about 20 cents a bushel. It is about 7 to 8 cents a bushel for 100 million bushels of corn, and about 60 cents a bushel for every 100 million bushes of soybeans. So it is traceable. We can certainly trace those impacts.

Mr. DOOLEY. Thank you.

Mr. SARPALIUS. Any other questions?

I want to thank both of you gentlemen for coming here today. Your testimony was excellent. We look forward to working with you some more down the road.

Mr. WOMACK. Thank you.

Mr. SMITH. Thank you.

Mr. SARPALIUS. On our second panel we will have Mr. Pete Wenstrand with the National Corn Growers; Mr. Larry Mitchell with the National Farmers Union; Mr. Tom Asbridge with the American Agriculture Movement; and Mr. Bob Stallman, president of the Texas Farm Bureau, testifying for the American Farm Bureau; Mr. Ferd Hoefner with the Center for Rural Affairs; Mr. Wayne Boutwell, president of National Council of Farmer Cooperatives; and Kathy Ozer, executive director of the National Family Farm Coalition.

Let me begin by thanking each of you for coming before our subcommittee today. Some of you traveled some good distances to be here, and I want to thank you for your time, expense, and effort that you have put on your testimony. All of your testimony, the written testimony, is officially in the record, if you would not mind summarizing, we will limit it to about 5 minutes each.

Mr. Wenstrand.

STATEMENT OF PETE WENSTRAND, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. WENSTRAND. Thank you, Mr. Chairman.

Thank you for the invitation to present the views of the National Corn Growers Association regarding the economic outlook of the U.S. agricultural sector. I am Pete Wenstrand, president of the National Corn Growers Association and a farmer from Essex, Iowa.

Most farmers in the Midwest are encouraged by the prospects of good crops this year after a rather devastating 1993 which was marred, we all know, by low yields, poor quality, and, in many instances, total crop loss from flooding, and we certainly extend our empathy to those currently suffering from the floods in the Southeast. We have every reason to expect at least normal and potentially very high corn yields this year and an increase in returns from crop production.

The larger crop will require enhanced efforts to utilize corn for both domestic and export markets. One such initiative is the EPA's clean air rule, which will require 30 percent of the oxygenate in reformulated gasoline be derived from renewable sources, and we have heard about that already today.

With this rule, ethanol produced from corn will provide an important source of renewable oxygenate to help reduce urban smog. The increased demand for corn as a direct result of this rule will provide a much needed stimulus for corn prices. I do want to take this

opportunity to thank those members of this subcommittee who have been strong advocates for the use of ethanol. We appreciate that very much.

Corn demand for food and industrial uses has steadily increased for the past two decades. We expect this demand to continue to grow as researchers develop new products that rely on renewable energy resources rather than fossil fuels. Federal funding for such research is critical to realize the full potential to keep the momentum going for industrial applications of agricultural products.

Domestic feed demand remains the most important market for U.S. corn. The greatest opportunity for increased demand for corn as livestock feed should be enhanced world trade in meat and meat products. Countries experiencing strong economic growth and increased income should generate new demand for meat.

The United States is the largest producer of corn in the world, but this predominance does not ensure profitability for U.S. producers. We must compete in foreign and domestic markets with other grains that can be readily substituted for corn and livestock rations.

European Union export policies have the effect of cheapening the value of wheat, which has displaced corn in several important markets. Meaningful reform of predatory export policies is essential to the long-term profitability of corn production.

The GATT represents the first step in reducing export subsidies, but to maintain a competitive export position the United States should redirect savings to GATT-authorized export promotion. The NCGA strongly supports the bill introduced by Congresswoman Long and cosponsored by other members of this subcommittee. It will help keep American agriculture competitive under GATT.

The bill would require USDA to aggressively use export enhancement programs to the extent allowed under GATT and to use funds that otherwise would have been used for export enhancement to be redirected to other export promotion programs. Strong consistent demand for exports of bulk commodities and value-added products will greatly enhance our position.

Federal policy should eliminate—when we take a look at farm programs, Federal policy should eliminate impediments to sound agricultural practices, such as crop rotations, and should encourage farmers to conserve our natural resource base through research, education, and voluntary, incentive-based environmental and conservation programs. The CRP program, the water quality incentive program, and integrated farm management program are examples of programs which can achieve these multiple objectives. We all know, unfortunately, that due to budget constraints these programs have not been fully utilized and we understand all the frustrations involved in that.

Concerning the CRP, NCGA supports a CRP that targets the most sensitive areas for eligibility with some increased emphasis on water quality and tree planting. Expiring contracts that will be extended should be subject to competitive bidding. Alternative uses, such as haying and grazing, should be encouraged on land that will not remain in the CRP. Since these issues will not be resolved before the first contracts expire, NCGA has requested 1-year extensions of CRP contracts expiring in 1995.

We all must consider a wide range of public policies that directly impact producer profitability. I believe it is important to note at this time that another upcoming legislative activity, the reauthorization of the Clean Water Act, has the potential to affect corn farmers' income every bit as much as the next farm bill. As such, I would urge all members of the subcommittee to support the referral of clean water legislation to the Agriculture Committee once it has been approved by the Public Works and Transportation Committee.

Most producers need adequate crop insurance to offer protection from the capricious nature of weather and enable them to manage financial risk. The pending reform of the Federal crop insurance program should afford all producers a minimum level of protection when faced with catastrophic losses and should also make higher levels of coverage more affordable for producers who need more protection.

As we look to the 1995 farm bill, we find that the existing farm program has not afforded producers any increase in support to offset the higher costs of production. Program yields have been frozen since 1985, and producers have not been permitted to increase their base acres without leaving the program for one or more crop years. The frozen yields and bases ignore the reality of changes in tillage practices and production techniques and the high priority on flexibility to achieve environmental goals.

During the 1990 farm bill debate, the NCGA urged adoption of a concept called freedom flexibility, and to save some time, it was basically a combining bases. Producers had a 25 percent full flexibility within that combined base. Unlike the budget-driven flexibility included in the 1990 act, freedom flexibility would have provided meaningful two-way flexibility for producers.

Flexibility that would allow producers to shift the use of productive resources in response to market, agronomic, environmental, and conservation considerations remains an important goal for us. While we have not endorsed any specific approach, and I will reiterate that, NCGA is evaluating how a normal crop acreage program would impact corn farmers. We have discussed a concept that would include all program crop bases, historic oilseed bases, and historic alfalfa and forage crops to determine the normal crop acreage. Producers would be permitted to plant the appropriate combination of these crops, again, given market expectations and agronomic and environmental considerations.

Producers would have to comply with all relevant conservation provisions, and may be subject to an acreage reduction requirement based on actual plantings of program crops. A producer's acreage reduction requirement could be modified to provide greater flexibility through targeted option payments which would adjust the ARP requirement in return for a higher or lower deficiency payment rate. An increased acreage limitation option could be used to encourage producers to develop multiyear set-asides. Similarly, producers could also elect to accept a reduced deficiency payment in return for the opportunity to lower or eliminate their acreage reduction requirement. The bottom line is we want set-aside policies to assure that land is utilized in the most productive, effective, and profitable manner.

Deficiency payments would be based on existing program crop payment acres and program yields. Producers would not be required to plant a minimum amount of the program crop to qualify for the deficiency payment. Neither would the producer be disqualified for planting more than the base acres to the program crop, unless total plantings of all eligible crops exceed the normal crop acreage on the farm.

For commodities with loan programs all actual production would be eligible to be placed under loan. Existing marketing loans would be continued with the marketing loan for wheat and feed grains set at no less than 85 percent of the 5-year average.

This is just a basic outline of how a normal crop acreage program might work. Again, I will stress that we have not endorsed this concept. We have endorsed flexibility and giving producers the freedom to make those choices.

We intend to carefully evaluate the impact on corn farmers before advocating such a change in farm programs. Our farm bill discussions have also included revenue assurance and insurance, green payments, and replacing deficiency payments with marketing loans, and these proposals also deserve careful consideration.

The limited flexibility of the current program does not allow farmers to respond to the multitude of changes in farming that have taken place over the last decade and that I assume will continue at an ever rapid rate as well. The 1995 farm bill should be designed to give producers the freedom to manage their farms in the manner that will best achieve the goals of profitability and environmental stewardship. We realize that this subcommittee, and we all, will have to craft a farm bill that complies with the budget. We do welcome the opportunity to work with you to devise a farm program that works for farmers under these constraints.

I thank you.

[The prepared statement of Mr. Wenstrand appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you.

Let me mention again if you would not mind summarizing your statements.

Mr. WENSTRAND. Thank you for your indulgence.

Mr. SARPALIUS. Mr. Mitchell, National Farmers Union.

STATEMENT OF LARRY MITCHELL, DIRECTOR, GOVERNMENT RELATIONS, NATIONAL FARMERS UNION

Mr. MITCHELL. Yes, sir, I am with National Farmers Union, and, Mr. Chairman, I bring you greetings from our national president, Leland Swenson, as well as Joe Rankin, president of the Texas Farmers Union.

Briefly, an overview of what you are asking for today and an overview of the agricultural economy today, there have been a few bright spots of late. We had Secretary Espy last spring increase loan rates for storable commodities under the CCC program. We commend the Secretary's initiative and urge further increases in support levels for all commodities. In addition, we commend Secretary Espy's decision to proceed with advanced purchases of dairy and beef products for the school lunch program as requested by

several Members of Congress as well as the National Farmers Union.

But as a whole, the economic outlook for the U.S. agricultural sector today is very unstable, and our markets are extremely volatile. For years, the livestock sector has kept agriculture as a whole or as what we have always referred to as "in the aggregate," as they say, on a slightly positive footing. But for the first time in many years, cattle prices have taken a serious downturn, and it looks as if these low prices will be with us for some time to come. The cash price for Winter wheat in Kansas during the harvest this year had fallen below the \$3 a bushel level. Cotton prices are experiencing significant declines recently. Dairy prices are again on the downturn. I have had reports in my office of milk in California at under \$10 per hundredweight.

The economic volatility in agriculture has been further destabilized by the very mechanisms which were founded to decrease volatility. It seems since midspring, if a rain shower or a hot dry day occurs on LaSalle Street in Chicago, the futures markets have reacted with price movements at or close to the allowed limits.

Part of today's discussion deals with the budget constraints and how it reflects on the agricultural sector's economy. The United States has had excellent farm programs in the past without spending large sums of money, as we do today, but these programs have been abandoned and now there is no question that budget constraints are a major factor in farm programs.

They have taken their toll on production agriculture. We have seen implementation of payment limits, definition of persons, triple base, frozen yields, reductions in disaster payments, and even assessments, better known as taxes, on producers of commodities that are in no-net-cost programs.

Also, part of today's discussion deals with current pending trade agreements. The National Farmers Union, of course, recognizes that international trade agreements, when properly crafted, can be useful vehicles to lessen world trade tensions, increase development opportunities and economic growth rates, and increase trade in goods and services for the betterment of humankind as a whole.

On the converse side, however, is a poorly crafted international trade agreement can heighten trade tensions, do serious damage to the economics already in place, and lower the standard of living of people living in the countries involved.

The economic outlook of the agricultural sector will be greatly influenced by the trade agreements. We are dealing with three of them currently: The Canadian Free-Trade Agreement, the North American Free-Trade Agreement, and GATT.

The fruits of the Canadian Free-Trade Agreement are just now ripening. Last week, the United States International Trade Commission found wheat imports from Canada interfere in the cost and operation of the wheat program. I even met with some of our Montana producers this week that are still unable to market the 1993 crop because of the glut of Canadian wheat in their systems in the northern tier States. We are asking President Clinton to use his authority under section 22 to immediately impose sanctions on Canadian wheat imports, but the problem here is that section 22 will no longer be allowed under the Uruguay Round of GATT. And if

it is ratified by Congress, how will we then be able to correct inequities such as these?

Of course, we have article 28 of GATT, but it requires congressional action and I am real curious to know if the 54 Members of the California congressional delegation will agree to concessions for wine exports to Canada in exchange for restrictions on Canadian wheat imports requested by the three Members of the North Dakota congressional delegation?

The Canadian wheat problem is but one of many problems experienced by farmers and ranchers on both sides of the border. The Uruguay Round, just to sum it up right now, we would like to see Congress postpone acting on the implementing language until next year. I don't believe that Congress has properly focused on the problem, and we would like to see it put off until next year.

We are just now finding out what GATT means to us. In the last 6 or 8 weeks, we have had several economic studies released telling us what we can expect from GATT. A couple of those were here today, those gentlemen. Texas A&M has told us that we are looking at a 2.9-percent increase in the price of a bushel of corn and a 3.4-percent increase in the price of a bushel of wheat by the year 2001. Those are minuscule, at best. But it is not that good for cotton and rice and some of the other commodities, and today I request of you, Mr. Sarpalius, Mr. Stenholm, and Mr. Combest, you might consider, in good conscience, if you could ratify a trade agreement which, according to economic research done by our own land-grant college, will reduce the annual net cash farm income of moderate-sized cotton farmers on the Texas southern high plains by 9.4 percent.

Also, according to the A&M study, out of 22 dairy farms in 10 States, reductions in net worth by the year 2001 were projected for 87 percent of those farms studied.

As far as the 1995 farm bill, the National Farmers Union is currently working on a program that would direct program benefits toward family farmers. It would deal with budget constraints, producer income requirements, trade agreement compliance, and stock carryover levels essential in the event of natural disasters.

It seems my time has run out. But I will say that we have initiated some studies on our proposal. The ink is not quite dry on it, I don't have a whole lot of specifics on it, but essentially what it would do is allow a certain amount of the production, the initial production to be eligible for a loan at a much higher rate, and production above that might have a different consequence. Thank you.

[The prepared statement of Mr. Mitchell appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you.

Let me reiterate that this is, this is the beginning of a long, long process. We will have many opportunities to discuss many of the proposals that some of your organizations have already offered and look forward to working with you.

Next, Tom Asbridge, American Agriculture Movement.

**STATEMENT OF TOM ASBRIDGE, EXECUTIVE DIRECTOR,
AMERICAN AGRICULTURE MOVEMENT, INC.**

Mr. ASBRIDGE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, on behalf of the American Agriculture Movement, I wish to thank you for the opportunity to appear here and especially from our president, Bob Thornton from Anna, Texas, to you, Mr. Sarpalius.

I have read the testimony that was at your hearing on the 29th and some of what is going to be said here today. I run a certain amount of risk in my position on it and I think I would preface it by saying a couple of weeks ago, I was in the Mississippi Delta. I was traveling behind a wagon being pulled by a mule and the wagon was forced off the road by a truck, and the mule disconnected from the wagon and he broke his leg. And the farmer, who I am not sure was a Farmers' Union member, although he had a cap and the wagon had a Farm Bureau insurance sticker on the back, but I am not sure if he was a Farm Bureau member.

Anyway, the farmer was laying in the ditch and the Mississippi State Trooper arrived and looked at the mule, saw he had a broken leg, and promptly shot him. He went over to the farmer and asked him how he was feeling and he said absolutely fine, sir. So I believe that is sort of my position here today.

The way that the story of agriculture's current condition has been told, it seems to me to run far afield from the reality in the countryside. I have been across the country in the last few weeks and I am a rancher from southwest North Dakota and I will give you as quick as I can a thumbnail sketch of how we see it in American agriculture.

In the past few weeks, the cattle market has been devastated. Feeding losses have run from a \$100 to \$300 a head.

The marketing economist, Harlan Hughes, from North Dakota State University has projected a 23 percent net income reduction per cow this fall, followed by another 22 percent decline in 1995, and another 11 percent decline in 1996. That puts the 1995 net income projection at 47 percent under 1993's.

Our position is that is going to increase the level of delinquencies in farm borrowers across the Nation. I believe in the Great Plains area, you will see an extremely large amount of delinquencies in areas where there is a cattle concentration.

The price for Hard Red Spring wheat in southwest North Dakota is from \$1 to \$2 per bushel less than prices received during harvest a year ago. Winter wheat prices hovering at \$3 a bushel and less, coupled with areas of drought and hail and other problems in Texas, Oklahoma, and Kansas, are placing a significant number of those producers in financial stress.

Corn and soybean prices are weak, but the prospects for a very large crop this year will tend to support gross income in those regions.

In the past year, according to USDA's statistics, the 1993 corn crop lost \$17.05 per acre nationally after \$1.4 billion in subsidies were paid. The 1993 wheat crop net income per acre was \$8.05 per acre after nearly \$2 billion in subsidies were paid.

The 1993 wheat prices were so low that without the subsidies, the loss would have been \$21.67 per acre for every acre planted in the United States. Cotton would have lost an all time high of \$115.49 per acre.

When you travel to rural America, the effects of these losses are obvious. There are a lot of vacant buildings out there and a lot of rusting equipment. It is unquestionable that rural America is in decline. The aging of the population in rural America is one of the direct results, we believe, of these policies.

Current pop-economic theory would have us believe that NAFTA, GATT and any other mechanism to increase exports will yield the prosperity we so desperately need in the agricultural production sector.

Careful analysis of that premise will yield the following: If we exported all of the food, all of the feed grains, and all of the fiber produced in this country between 1984 and 1990, leaving nothing for Americans to eat and nothing to feed the livestock, we would still be short \$388.5 billion of balancing the trade deficits.

The data available demonstrates the taxpayer subsidies deteriorate prices at the farmgate thus destroying earned net income and reducing the food and fiber producers of this country to the position of welfare recipients depending on the Federal dole, and today, according to testimony here in the statements of the administration, an ever shrinking budget, to provide that dole.

The record also proves that using cheap farm exports to offset the trade imbalance is impossible. Mathematics clearly proves that exporting our way to prosperity when every acre grown generates a net loss to the national economy is folly.

We as producers have been forced to produce more and more volume each year in a futile attempt to offset falling prices. We ask you and Congress to consider this. Federal policy to keep production up and prices low has been so successful that the United States enjoys the lowest priced food in the industrialized world; prices so cheap that 26 million Americans need food stamps to consume it.

At a recently held Great Plains symposium on world agricultural trade, the keynote speaker said that 60 years of centrally planned agriculture has not worked and we should have the courage to consider releasing our own farmers from this burden.

I submit to you the policies have worked. They have provided huge volumes of raw material at the expense of the producers and ultimately the taxpayer and consumer. The policy has yielded the appearance of cheap food for the political establishment to use as a reelection tool, at the expense of rural America, the sector now almost void of voting power.

America has come to view farmers as chronic complainers on a never-ending quest for more subsidy. And, in part, we have come to Washington for decades with our hats in our hands. Those have been the parameters allowed to us by the political system.

We have had a fair price exchanged for a welfare check. The result has been earned income replaced with debt. Rural America's prosperity is of national importance and we need a policy that will replace the current system that we have with one that gives income to rural America, not through a welfare check, but through the marketplace. An income based on an American standard of living, not one of a world standard of living.

If we are to participate in a global economy as is being suggested today, then we must pursue a policy that raises the standard of liv-

ing the world over and not reduce the standard of living here to that of the rest of the world, otherwise we will have more of the same as what we have had in the last 40 years, a declining rural America and an increasing level of poverty in our urban centers.

I ask you and Congress to consider this as we believe this is the beginning of what should be a great debate on a new farm policy.

Thank you very much.

[The prepared statement of Mr. Asbridge appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you very much.

Mr. Bob Stallman, president of the Texas Farm Bureau testifying for the American Farm Bureau Federation.

STATEMENT OF BOB STALLMAN, PRESIDENT, TEXAS FARM BUREAU, ON BEHALF OF THE AMERICAN FARM BUREAU FEDERATION

Mr. STALLMAN. Thank you, Mr. Chairman.

We appreciate the opportunity to be here to present testimony.

Improving net farm income, enhancing the economic opportunity for farmers, and preserving property rights are our most important goals and should be the foundation on which all farm policy is built. We favor a market-oriented agriculture with supply and demand, rather than government action, ultimately determining production and price.

Nevertheless, until worldwide market conditions are such that farmers can realistically expect to obtain a fair return for their production, Federal farm programs must be designed which allow American farmers to be the backbone of a comprehensive public policy dealing with food security.

We believe U.S. policies affecting agriculture should be designed to: One, continue to ensure that U.S. consumers have access to a stable, ample, safe and nutritious food supply; two, continue to improve the environment through expanded initiatives to encourage voluntary soil conservation, water and air quality programs, and advanced technological and biotechnological procedures; three, minimize world hunger and nutrition deficiencies; four, create a long-term, competitive and desirable agricultural growth industry; five, enhance U.S. agriculture's competitiveness in the world market; six, improve the quality of rural life and increase rural economic development; and, seven, promote actions which will permit new concepts to be introduced that will allow the market to give accurate economic signals.

The general farm program provisions of the Food, Agriculture, Conservation, and Trade Act of 1990 continue to move the United States toward a market-based, export-competitive agriculture, a direction which was established by the program in 1985.

We support that general direction despite what we consider a disproportionate share of the deficit reduction burden imposed upon farm programs. We oppose modifications in farm policy that would change that direction away from the market-oriented goals of competitive loan rates, voluntary stock reduction programs, and income supplements as farmers move toward a market-based agriculture.

There continue to be concerns about the Federal budget deficit, with both Congress and the administration focusing on ways to reduce Government expenditures. Frozen program yields, unpaid flex acres, lower target prices, and dairy program assessments have reduced Federal program payments by nearly \$21 billion since 1989. These cuts have been real, not smoke and mirrors, not cuts from some projected higher-level budget, but real and painful for the agricultural sector. These impacts have been felt on the bottom line of many farm families and as a result of these cuts, net cash farm income is now approximately 10 percent lower.

All this is occurring at a time when farmers are being forced to comply with more restrictive environmental mandates.

I would note that AFBF supported some of these cuts, such as lowering of the target price in the 1985 farm bill. As a result of these reductions, however, Government payments to farmers are now approximately one-third lower than they would otherwise have been.

Agriculture is currently on more level ground. We are a much leaner and meaner industry. Efforts to stem the loss of export markets to our foreign competitors by keeping loan rates competitive have helped, but the battles for export markets continues to be a fierce one with much government intervention, especially from the European Union and Japan.

The recent passage of the North American Free-Trade Agreement and the pending GATT agreement should create new opportunities for America's farmers, but they are not panaceas which cure all the trade distortions affecting producers' access to foreign markets.

With respect to specific general farm program provisions, the Farm Bureau is currently engaged in the development of more detailed proposals, both at the national and State levels. However, on a number of issues, our policy is clear.

Farm Bureau opposes any income means-test applied to farm program payment eligibility as well as efforts to reduce program benefits through lowered payment limitations or repeal of the three-entity rule.

If a payment limitation is in effect, no rules in defining "a person" should penalize farm operators who legitimately share labor, equipment, and other resources as a normal course of operation.

Participation in any Federal or State water projects should not adversely affect a grower's participation in any USDA farm program.

Producers should not be penalized for taking action based upon inaccurate guidance from USDA officials. If a repayment is required as a result of such action, it should be limited only to principal.

Tenants or landowners should not be denied benefits of Federal legislation on any farm that is in compliance with the provisions of the program, regardless of the compliance status of other farms.

ASCS yield procedures should be amended to allow producers to furnish actual production evidence and thereby have a farm payment yield which is based on proven production instead of the current procedure, which is based on outdated yields of similar farms.

ASCS should provide producers with flexible programs. This flexibility could be offered through implementation of the targeted

option payment program or through prorated deferral of the repayment for subtraction from subsequent deficiency payments.

Several key issues affecting the general farm program provisions are deserving of special attention in the upcoming debate. Among these are planting flexibility, acreage reduction programs, and expiration of the conservation reserve program contracts, environmental restrictions, and conservation and environmental incentives.

Increased international competition, tighter operating margins and reduced governmental support all call for more allowance for producer flexibility in planting decisions. Currently, most planting flexibility comes with a cost of lost income support.

Policy options for the 1995 farm programs should consider allowance for some planting flexibility without loss of program benefits. In addition, establishment of a mechanism wherein planting flexibility could be extended to the whole farm should be considered.

There is some evidence that acreage reduction programs, particularly annual set asides, have contributed to a loss in export market share and have only been partially effective as a price support mechanism. But alternatives to annual set-asides, such as multiyear set-asides designed to achieve conservation/wildlife habitat goals, an environmental targeted option payment program, and a flexible CRP program, which acts as a natural resource reserve, should be explored.

Modification of the budget rules to establish a baseline budget for the extension of a major portion of the CRP without extracting the funds from the price support programs would enhance both programs.

Modification of general farm program provisions to include incentives for conservation-related activities, or green payments, is deserving of consideration. However, incentive payments should not be funded by reductions of direct income support payments.

The additional written comments provided to the subcommittee are attached to my prepared statement. We certainly thank you for the opportunity to be here today.

[The prepared statement of Mr. Stallman appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Bob.

Mr. SARPALIUS. Next, Mr. Ferd Hoefner with the Center for Rural Affairs.

STATEMENT OF FERD HOEFNER, WASHINGTON REPRESENTATIVE, CENTER FOR RURAL AFFAIRS

Mr. HOEFNER. Thank you, Mr. Chairman, for this opportunity to testify. The average age of farmers, as we know, is nearing 60, and over half of the Nation's land is operated by farmers who are likely to retire within the next 10 years.

At the same time, entry levels for beginning farmers have fallen to alarmingly low levels. We are therefore in danger of permanently losing a major share of the Nation's farming opportunities.

As Iowa State University agriculture economist, Neal Harl, has stated the case, "We are poised on the edge of the greatest period of farm consolidation in history."

But it need not be that way. If we adopt a set of policies designed to support economic opportunity in agriculture, the land made available by retiring farmers over the next decade could provide the base for a new generation of beginning family farmers.

If we focus farm benefits on supporting and enhancing the competitive position of moderate-sized farms, there can be a viable future for family farming and farming communities.

Federal commodity program policy, however, has moved in the opposite direction in recent years, away from supporting farm opportunities. Moderate-sized grain farms have taken substantial cuts under the terms of the 1990 Budget Act, while the Nation's largest farms have taken no cuts. Most farms with sufficient acreage to receive the maximum \$100,000 in deficiency payment prior to the 1990 Budget Act continue to receive the same \$100,000.

Submitted with my testimony is a copy of a study released today by the Center for Rural Affairs. It compares deficiency payments received by 38 moderate-sized and large model farms producing wheat, feed grains, rice, and cotton in 13 States, using actual payments for 1990 and 1993 and CBO projected payments for 1994. The findings of this study demonstrate the serious inequity of using across-the-board mechanisms to impose farm program cuts.

For example, the study found that a Missouri moderate-size 1,100-acre corn, wheat, and soybean farm is projected to receive a \$16,000-plus deficiency payment this year, a 32 percent cut from the 1990 level. The majority of this cut, although not all of it, is due to the 1990 Budget Act provisions. By contrast, a large 8,000-acre Missouri corn, wheat, and soybean farm is taking no cut. It is projected to receive \$100,000 this year just as it did in 1990.

We strongly urge the subcommittee to focus commodity program benefits on supporting the establishment and survival of moderate-sized family farms, rather than subsidizing land consolidation. We urge you to rectify the inequity of the last round of cuts, and, should any future cuts be imposed, to structure them in a fair manner.

We also urge you to redesign commodity programs to reward resource stewardship and assist farmers in meeting environmental challenges facing agriculture, and to do so in a cost-effective and farmer-friendly manner.

Toward those ends, we are developing a proposal to establish an environmental reserve program to largely replace the acreage reserve program. Under this proposal, farmers would no longer idle land as a condition of receiving deficiency payments in most years.

Instead, a portion of the deficiency payments would be moved to a pool to pay farmers to reduce production in environmentally beneficial ways.

Farmers would bid to participate. USDA would accept that combination of bids that meet fiscal and production targets, while achieving the maximum environmental benefit. Both special conservation practices—contour grass strips, buffer areas and filterstrips, and covered endrows, for instance—and integrated crop management plans could qualify for the reserve.

We think there are advantages to this idea. Without any increase in budget impact, you can greatly increase the conservation benefit from the annual program.

We are preparing a detailed analysis of this program and would be pleased to share it with you as we proceed.

We would also urge that improvement in the integrated farm management commodity program option be on the agenda of this subcommittee. Some administrative changes this year have improved the program, but further legislative changes are required to reduce farm program barriers to the adoption of resource conserving crop rotations and other conservation practices.

We are developing a set of reforms to both increase the flexibility and simplify the rules of the IFM program and, again, we will be happy to share those with you in the near future.

In closing, let me note that targeting farm program benefits, creating an environmental reserve, and improving the integrated farm management program are but three of the larger set of issues we are working on in conjunction with the Campaign for Sustainable Agriculture, a national network of farm and nonfarm groups working together in preparation for the next farm bill.

I know that the national campaign stands ready, as we do, to work with you in developing these and other options for the farm bill.

Again, thank you for the opportunity to testify.

[The prepared statement of Mr. Hoefner appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Mr. Hoefner.

Next, Mr. Wayne Boutwell, president, National Council of Farmer Cooperatives.

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BOUTWELL. Thank you very much, Mr. Chairman. We believe this is an important first step in the deliberations for the 1995 farm bill and congratulate you for holding these hearings.

As you know, Mr. Chairman, there are many challenges faced by agriculture, but in terms of the ones we believe will be overriding as we enter the debate for next year's farm bill the overriding one will be, the budget constraint. That trend has been going on, as you well know, for a decade now and we do not see that slowing down any as we enter the debate next year.

So I think one has to realistically assume that we are going to be trying to write that farm bill in an even tighter budget constraint and we are simply going to have to deal with that.

Second, the whole trend toward globalization, with NAFTA and now with Congress obviously going to consider GATT, it is going to put the American farmer more directly in competition with farmers overseas. But I would suggest to you that, more importantly, it puts us in competition with policies and programs of other countries overseas. That can have as much to do with the markets for agriculture as even the economics of farming itself. I think this is an obvious area that has to have policy considerations a part of the Government program.

Third and finally, is the whole area of the environment. We will see continued pressures on farmers in terms of their cultural practices, and meeting more stringent environmental considerations.

So we believe it is critical, in reviewing and evaluating the role of Government in agriculture, to establish the priorities for the 21st century that will allow agriculture to be a growth industry and prosper into the future.

The projection, frankly, that we heard this morning from Dr. Womack and Dr. Smith reinforced the need to take a fundamental look at our family of farm programs and policies, because if I heard the numbers correctly, the baseline projections put forth under the current program and current budget restrictions, did not contain any good news.

So, I think it cries out for a fundamental look at our farm policies and programs. Given the framework then for debate that I just outlined, it seems to us that three areas are important.

One, if you are going to compete in a global marketplace, you absolutely have to be cost efficient. You have to be able to get to the marketplace at the best price if you are going to maintain your market share. But, that price has to be at a level that allows farmers to have a fair return on their investment.

Second, market expansion is critical to be a growth industry. If you cannot sell it, you cannot produce it at a profit. So we need to do everything we can to shift the demand curve to the right to expand demand for our products.

And third, risk management is critical. We heard so much about that this morning, but until agriculture is brought into a greenhouse, we are going to face the ups and downs of weather. And I don't have to remind you of what is going on in Georgia and other parts of the South, nor what happened in the Midwest last year relative to weather impacts on agriculture.

Based on these needs, then, we would urge consideration of, one, renewed emphasis on agricultural research with a dual role of increasing productivity, which helps hold down the cost per unit of output, while at the same time meeting the new environmental standards that agriculture and farmers may face. In addition, research in the area of new products and new uses, which will clearly expand the demand for our products is needed.

Two, the role of the Farm Credit System needs to be addressed as farmers struggle to retool and reengineer their farms. It requires capital, and we believe that the Farm Credit System has a critical role to play, not only in farming, but in rural America as well.

Three, in the area of market expansion, very clearly efforts to promote our products through the market promotion program, market development program, and Public Law 480 are critical.

We appreciate your support, Mr. Chairman, along with Mr. Emerson and others, that have joined in the cosponsoring of Ms. Long's legislation which would maintain efforts to expand our markets overseas. We think that is absolutely critical because, if the GATT agreement passes, these programs will be considered green box programs and eligible for increased funding.

We are sure that our competitors overseas will shift their funds and if we are going to maintain market share it is critical that those programs be funded for market expansion.

And, finally, in the area of risk management, there are a number of opportunities there, everything from crop insurance to revenue

insurance to expanded marketing loan programs. The full use of our programs is obviously critical in the whole area of risk management.

In listening to the earlier testimony, I would just throw out one observation and that is that, if we are going to maintain stocks to protect consumers on the one end and keep consumers from high price spikes, then it cries out for protection for farmers on the bottom end. Because what you are doing with that kind of policy holding down the average price? I am sure the members of this subcommittee understand that, but it is worth repeating again.

If we are going to have a policy to protect consumers on the one end, then we very well better have a policy on the other end to assure that farmers are protected as well.

With that, Mr. Chairman, I will close my remarks and look forward to any questions.

[The prepared statement of Mr. Boutwell appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Wayne.

Next, Kathy Ozer, Executive Director, National Family Farm Coalition.

Kathy.

STATEMENT OF KATHERINE OZER, DIRECTOR, NATIONAL FAMILY FARM COALITION

Ms. OZER. Thank you, Mr. Chairman.

I am pleased to testify here today on the first part of the process of some of our concerns relating to the preparations for the 1995 farm bill.

Just one thought is I certainly know this is the beginning of a long process, but I would urge this subcommittee to hold regional hearings for input to hear directly from family farmers as you start this process and continue on.

While many claim or had claimed until some of the most recent statistics that the "farm crisis" is over, as other people have testified this morning, we unfortunately feel that the reality is far different. Farm auctions and sales have been escalating. Rural unemployment and poverty levels remain at record highs and lower farm income, we feel, has been the direct result of for many years our export driven farm policy.

On June 29, at the first hearing in this series, sitting in the audience, I heard Keith Collins from USDA present testimony that there has been more than a 50-percent increase from 3.9 percent to 6.3 percent in the percentage of commercial farmers on the brink of bankruptcy or foreclose in just 1 year, from January 1993 to January 1994. This translates into over 40,000 farms suffering from a dramatic drop in farm income, and we feel, are very concerned that those figures, those statistics are only the beginning of reflecting the very real hardship that confronts family farmers and their rural communities.

As others have mentioned, the combination of last year's Midwestern floods and the Southeastern drought, we saw increased situations of production costs and reduced yields, but those farmers still faced very low corn and wheat prices at the time of harvest; dairy prices that fell below the cost of production, and now are fall-

ing very rapidly, and an increased number of farmers working through credit foreclosures and dealing with debt restructuring. This year's floods in the Southeast, happening right now, unfortunately may put many more farmers and their communities in further jeopardy.

We have a particular concern about some of the impacts for African-American farmers and low-income communities who unfortunately when a natural disaster plan goes into effect often are not reached to the level that they need to be.

Given what we saw last year, many family farmers in States that had very good dissemination programs also did not hear about many of their options. We flagged that as something that we hope will get dealt with by this subcommittee and the full committee.

We feel that the 1995 farm bill must reflect a significant change in current policy to stem the continual loss of family farmers in our rural communities. We need farm programs that make sense to farmers, to taxpayers, to the environment, and to consumers.

Following up on testimony that Larry Mitchell gave, and Tom Asbridge, that includes increasing the commodity loan rate to significantly have an increase in net farm income. We feel this approach would improve and result in effective marketing of wheat and feed grains, actually making the loan rate usable, which in past years it has not been of any use to family farmers, and, at the same time, look at programs to really examine what are adequate storage levels. How do we establish them? How do we manage them? How do we make sure that storage does not result in reducing domestic farm prices? But, at the same time, be part of an ongoing supply and supply management and establishing adequate reserves to meet real needs, and to have that part of the goal and really to approach it with the kind of research that I think many of you requested of FAPRI earlier in the hearing. That is the kind of input we hope happens in this farm bill, which we felt was very lacking in the last debate around the 1990 farm bill.

The coalition is committed to working to change farm and food policy. We realize that it cannot be done as family farmers alone. As Ferd Hoefner mentioned, his organization is a part of the Campaign for Sustainable Agriculture. We are as well, and I would ask that the issue options paper that has been put together by the campaign be included after my testimony in the record.

As that document lays out and many of our own ideas, we are just in the beginning stages of the process. There are many questions, there is research needs, and we feel very strongly that that needs to be a top priority.

As was mentioned earlier, one of our biggest concerns is how the NAFTA and the GATT really will impact on net, farm income. We look at the forecasts and they look bleak and we feel strongly there needs to be an examination of that.

We too would urge that the GATT vote be delayed, that it not happen crunched into this summer and into the fall because there are many issues unanswered yet, and it will then be too late after the fact to say, well, we cannot do much about it. We think that is an important issue in terms of agriculture, in terms of rural community survival.

Just in wrapping up, one of our other concerns is what is happening in terms of contracting operations. What is happening in terms of different shifts of who controls decisions that relate to farm operations. What does that do in terms of entry into farming? What does that do in terms of long term profitability.

The other issue which has also been raised this morning has to do with some of the push to work off farm. We are concerned in many rural communities those jobs are not there; that we should have a farm policy that, and a farm income that, rewards people for the work that they do on farms and puts the value in terms of what some of the costs of production are and the farm prices that farmers receive.

As I said before, we look forward to working through this process. We feel this is a very critical opportunity; that the window is closing unless there is a change in policy and we cannot have more of the same because with that we see the kinds of projections that FAPRI mentioned this morning.

They are not a shock, given those of us that are working with farmers across the country and seeing the large numbers of people who are leaving farming and they are not either their own family or other neighbors picking up and taking on those operations. There needs to be a view that there is profitability in farming, there needs to be access to affordable credit and there needs to be a comprehensive policy that works for family farmers.

Thank you.

[The prepared statement of Ms. Ozer appears at the conclusion of the hearing.]

Mr. SARPALIUS. Thank you, Kathy.

Let me ask each of you to respond, if you could very briefly, and let me commend all of you for your testimony. It is excellent. The written testimony, some of the backup information that many of you gave, all of it will be part of the record and we appreciate the work that you put into it.

If you were in my shoes, or in my boots, knowing the budget constraints that this Congress is facing and we will continue to face, and as we look to the 1995 farm bill, what would be the first change in farm policy that you would make? Anybody?

Mr. BOUTWELL. Mr. Chairman, I can start and maybe others will come up with something of greater wisdom after I get through answering.

It seems to me, Mr. Chairman, that one of the things you need to do is to take a look at the level of funding that is available within agriculture. There are some array of programs out there in the area of risk management.

I keep coming back to risk management, and I think it is fundamental. I think all the areas, market development and all the others are fundamental, but the area of risk management is one that I think is under greatest pressure right now. I think I would ask a bunch of questions like: What are the alternatives that are available to us as a committee? How can we best spend those limited number of dollars to get the greatest benefit to farmers in terms of risk management?

It may be an expanded marketing loan program; it may be a revenue insurance program; it may be a host of things like that. But

it seems to me you should lay those out. Lay the budget out beside it and ask that fundamental question: How can we best spend these dollars so that the agriculture and farmers of this country can prosper and be a growth industry and be protected against the vulnerabilities of weather?

Mr. SARPALIUS. Bob.

Mr. STALLMAN. No real bright ideas at this time, Mr. Chairman. But it is a question that I pose up here on the Hill often is as Government expenditures are reduced and the proportion of income that farmers get through Government payments are being reduced, as a matter of policy, is this committee, is this Congress, is this Government willing to allow producers to get more return from the marketplace; i.e. higher prices, either being paid at the processor level and then those ratcheted on through consumers because those are the only two places that the farmer's income can come from.

The real question is, as Government expenditures are reduced, are we willing to do that? I think that is a valid issue. As an argument it could be, if we are not willing to do that, it is an argument that could be posed that we do need to maintain an effective level of funding for farm policy.

Mr. MITCHELL. As we touched on a little bit earlier, the dollars are going to be short and we believe that we need to target the farm program benefits to a level of production that will be consistent with moderate family sized farmers.

I hesitate to speak a whole lot about this next issue, but I think it is going to be a large part of the debate. I have not studied the release yet, but I understand the GAO has released a study pointing out that if we spent the money we are currently spending on EEP on domestic farm programs it would increase farm income by 21 percent. I do not know if that is feasible or will work but, certainly it warrants some study.

Other than that, at this point I do not know what else we could do, because we have a long road to hoe in the next 18 months. We do not know if GATT will be in place by then or not and we do not know exactly what the budget will be.

Mr. HOEFNER. I will take a brief crack at it. I think Mr. Womack laid out the scenario for what happens if we have a continuing withering away of the budget in commodity programs. It gets to the point where you do not have participation.

I think the way to inoculate against that happening is by doing two things, and both are addressed in my testimony, but I will repeat it.

One is to better target benefits and the second is to make it more clearly an environmental program. I think with those two things, you get the kind of support on the floor that you need. I think without them, you do not. I think those are the two most important things to do.

Ms. OZER. I would just say the whole examination of ways to increase the commodity loan rate may in conjunction with some of the focusing on certain production levels needs to be researched all together as opposed to looking at one component in isolation which then obviously takes on some costs and looking at the kinds of scenarios that together would make these programs work better.

Tying in some of the storage issues, tying in some of what could be seen as an internal farmer risk management, I think the concern is that if you are only looking at in times of disaster, in many cases you are sort of having both disaster and exports drive the farm policy as opposed to looking at what are the needs of domestic producers, what are the needs of those rural communities, what are the job impacts of a farmer being profitable, hiring people to work on their farms, in contrast to them having to leave their farm, displace another worker in that community at the same time trying to hold on to their farming operation.

I think some of those issues need to be looked at in a much broader context and not simply in terms of the farm program payments and the dollars allocated to farm programs, since if we have further dislocation in rural communities, there are other Government expenditures that either get tapped into or property taxes and other tax levels that get depleted. That whole approach needs to be looked at together.

Mr. WENSTRAND. Mr. Chairman, I have spent a lot of time talking about flexibility, and I think flexibility does several things.

One, again it gives the producers opportunity to manage their farms for the most profitable basis. It allows them to more easily address conservation, provide crop rotations to address the environmental concerns. I think it also takes some of the pressure off large producers not to participate in programs. I think to a certain degree.

So it takes a package, but again, I think that there are a multitude, there are multiple advantages of providing some more flexibility in cropping decisions.

Mr. ASBRIDGE. Mr. Chairman, you pose a very difficult question, and I do not envy your position.

From the perspective of the American Agriculture Movement, we believe that the farm programs as they were designed in the late forties and early fifties have basically paced the rate of farm failure and they have been designed to reduce commodity prices, in general, each year and they have been very successful at that.

When you are working within the constraints that you are, it is very difficult. Production agriculture has become addicted to farm program benefits. We have replaced earned income from the marketplace with that subsidy.

Now when you reduce the subsidy, it puts a terrible stress on not only farmers but the rural communities we hear about all the time, and then need jobs and an infrastructure development.

One thing that I would suggest, to change our perspective of how we view agriculture, is to look at the real role that production agriculture plays in the national economy and how big an impact the gross agricultural dollar has on the Nation, not just on agriculture.

If we look at that carefully, I think you will find that anything that reduces farm income has a very significant effect on the overall national economy.

We will not be able to fix that problem if we rely on cheap exports caused by cheap production. I think all we will see is a further increase in the Federal deficit and a further reduction in people who live in rural America and the problems that flow from that

will be dumped on Congress to solve. So I think the choice becomes more clear if we look at it from that perspective.

Mr. SARPALIUS. Mr. Emerson.

Mr. EMERSON. Mr. Chairman, I want to thank all of the witnesses for their statements.

I think your question was a good one, asking them where they would start this debate, and it is probably a good note on which to end, so I will not pursue anything. It really is, it is a good beginning.

It is a good hearing. I am glad we have had it.

Thank you, Mr. Chairman.

Mr. SARPALIUS. Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman.

When we look at the program crops that are receiving the primary benefits, would anyone on the panel disagree that the price that farmers are receiving for that is influenced in large part not only by the domestic market production but the international market condition? Does anyone disagree with that statement?

If you agree with that statement, then, can anyone on this panel make a compelling argument on why we ought to have a Government policy that embraces any form of acreage set aside or acreage reduction if we acknowledge that the price is going to be primarily the result of international market conditions?

We are in fact then asking our producers to set aside production, which over time is sacrificing market share. Can anyone give me a good argument, or compelling argument why we should have a policy that embraces ARPS?

Mr. WENSTRAND. I am not sure if I can, Congressman. Those decisions in our organization—every year of course we have to make a recommendation to the Secretary on set-aside and ARPS and there is a wide range of opinion, even in our own organization on the value of ARPS or on the cost of ARPS, the merits of ARPS.

I think certainly as it is a more global marketplace, I think ARPS certainly will come into question as far as I think they have less effectiveness, because corn can be substituted with starch or tapioca today in the Far East. They are substitutable commodities at least in the livestock feed stuff sector.

So I think that they probably become less effective over the long run, especially when you take a look at the globalization of agriculture.

On the other hand, I think that there are times when in short run situations wherein surpluses can develop. We know the demand is somewhat inelastic. Surpluses can develop. I do not think they really enhance your market development activities, and so, from time to time, I think that surpluses can be developed which do not benefit producers. But with the globalization aspects ARPS become less effective and probably will be less effective over time, but in my organization, it is a very controversial subject.

Ms. OZER. Our organization's position during the 1990 farm bill and is still looking at it now, is not support, not like ARPS since it tends to force a maximum production on the remaining acreage and in its place we have in the past supported a bushel based approach, that one would make decisions based on environmental needs, based on the actual production level, looking at what kind

of acreage the capacity of certain parts of one's own farming operation to meet certain specified production goals.

A variation on that we are looking at in terms of some of these environmental reserve proposals. But we have been looking at it from the context of having a bushel based approach to figuring out what an individual farmer need is in terms of meeting national production levels, which could include some level of exports, but not to be driven by just maximizing the production to meet what could be unlimited export demand at very low prices.

Mr. DOOLEY. How is that helping the U.S. farmers' position in terms of market share?

Ms. OZER. Well, one of our big questions has always been whether that market share directly relates back to an increase in net farm income and we would argue the question that—

Mr. DOOLEY. You do not necessarily subscribe to market expansion at all costs?

Ms. OZER. We would say you need to look at what the impact is on that family farm income and that rural community as a part of a proposal.

Mr. DOOLEY. Mr. Boutwell, you wanted to comment.

Mr. BOUTWELL. Yes, Congressman Dooley.

One of the examples I have used over the years, relative to acreage reduction programs, is a cotton example. Back in the thirties the United States was about 100 percent of the cotton world market. So if the world had 10 percent too much, we only had to cut 10 percent to balance the market.

When you are 10 percent of that market and the world has 10 percent too much, you have to cut out 100 percent in order to balance that market.

So I suppose that over time, with the increased globalization that is occurring out there, and you are more in competition, very frankly, if you continue to use those kinds of programs, you just simply provide the opportunity for others to increase production, expand and take your market share.

Very frankly, over the last several years, I suppose I have come to believe that we have more used acreage adjustment programs to try to control the cost of the program than we have to try to affect the market. So they have become more permanent in nature and I am not sure they have been all that effective in terms of trying to balance a supply and demand.

Mr. DOOLEY. I appreciate those comments and you always appreciate the comments you agree with probably more than others, but I think that is what all the farm commodity groups have to understand and I think Mr. Boutwell was right on target. ARPS have been used primarily to limit Government exposure in terms of budgetary allocation.

How long can we continue to maintain these as a component of any farm policy when we see what they are being utilized for, to a great, is not benefiting farmers income under any scenario? So I ask you in the next few months and year can we come up with an alternative that provides some of the benefits. Maybe, I don't think there are any, but some other mechanism that does not require set asides—I have some others, but I will wait.

Mr. SARPALIUS. Mr. Minge.

Mr. MINGE. Thank you. I would just like to ask one question, really make a statement and get a response.

I have had many conversations with farmers in the last couple of years and I will have to say that the majority of the farmers with whom I have spoken are very skeptical about the value of agricultural programs at all.

They perceive that the agricultural programs as they are currently designed are driven to serve the needs or meet goals that are established by other interests in our society, environmental interests being one, need for a food surplus in case of a crop failure in the subsequent year and looking at the consumer side being another.

As a result, to the extent they benefit from a commodity program, those benefits are largely lost by the costs of compliance from their perspective. It is not uncommon for them to say why do we not just scrap all the farm programs and we will try doing our job as farmers without any of the restrictions that accompany the farm program payments that we are receiving.

I am just kind of curious, from the perspective of your organizations, if you could say very quickly do you think that we should try that and start over?

Yes, Mr. Stallman.

Mr. STALLMAN. I do not think we are at the point where that is viable. I have heard those same concerns. The problem we have, and it is true that a lot of the farm program policy is being driven by environmental and consumer concerns.

We have a structure or an infrastructure that has been put in place, built around farm programs, and just to say let us stop and start over would have some pretty dramatic economic effects across this country.

There are certain program crops that are more capable of getting out of the farm program scenario than others and a lot depends on our competitiveness situation in an international marketplace.

The perception that GATT and NAFTA are going to make us or have a level playing field is obviously incorrect. That has helped or they will help as they are implemented, and my personal belief is that the American farmer can compete against foreign farmers.

We cannot compete against foreign governments and until such time as we truly do have the opportunity to compete in the marketplace against those foreign farmers as opposed to governments, I think it would be a little bit premature to be dismantling our current farm program, particularly the income support and export assistance components of that.

Mr. MINGE. Thank you.

Mr. SARPALIUS. Let me ask one more quick question. Every one of you kind of casually mentioned the GATT agreement and NAFTA, as we move toward trying to compete more competitively in world markets. Some of you made some comments against it and some of you made some comments in support of it.

If you heard the testimony of the two gentlemen that testified before you did, one indicated that net farm income probably would not improve at all and the other one indicated that it would. So it kind of depends on what study you look at or what, but let me just ask you, in your opinion, you represent organizations, can you tell

me if your organization has taken an opinion on the current agreement, are they for it or against it?

Mr. STALLMAN. Currently we certainly, the Farm Bureau certainly supports NAFTA, did support and worked diligently to obtain its passage. Assuming that we do not have a lot of problems with the funding of the GATT agreement, I will be supportive of implementation of the GATT agreement.

Let me throw out some quick numbers that illustrates where we are and why we should not be using NAFTA and GATT. We should not be adopting the perception that NAFTA and GATT are going to solve farm problems and, therefore, we can ratchet down farm program spending.

1993 subsidies to U.S. farmers on a per-acre basis were about \$85 an acre. Nine dollars—only \$9—of that was direct support. Forty-three dollars of that was indirect support and \$33 of that were programs such as food and nutrition.

At the same time, EC farmers received \$453 an acre and Japanese farmers received an incredibly \$5,714 per acre. Even if and when GATT is fully implemented, the EC farmers will still receive roughly $3\frac{1}{2}$ times as much subsidies per acre and the Japanese will still receive roughly 45 times that amount and these figures in the study are included in my written testimony to the committee.

But I think that illustrates we cannot walk away from farm programs, income support, and particularly export assistance programs on the basis that GATT has solved all of our access problems in world trade.

Mr. BOUTWELL. Mr. Chairman, I think you have to separate the GATT agreement in the implementing legislation because it is wrapped up in the whole issue of the budget and who pays for the agreement. In looking at the GATT agreement, there are several sectors where there is a potential for benefit coming out of the agreement, but in order to achieve that benefit, you are going to be in there competing with other governments around the world including their policies and programs, as was just mentioned here.

So if we wound up with agriculture having to pay for the agreement by cutting the very programs that allows us to have the opportunity to gain those benefits, then it gets questionable as to whether or not that agreement is as good for agriculture as one might consider.

So it seems to me that while the agreement seems positive in most respects, that we would give serious consideration to opposing any implementing legislation at that look to agriculture for a disproportionate share.

Mr. SARPALIUS. Let me say right there that I do not think you will see that happen.

Mr. BOUTWELL. That is encouraging.

Mr. SARPALIUS. I understand everybody's concern about the dollars. What I am interested in is how do you feel about this country moving more aggressively in that direction?

Under GATT, I am sure you understand that they give us credit for some of the subsidies that we have already cut in the last several years, but I would like to hear your opinion.

I understand the finance. All of us, everybody on this subcommittee, expresses that same concern.

Ms. OZER. I would say our organization opposed the NAFTA and we have serious concerns and are opposed to what we feel are the implications of the GATT as negotiated. Just in terms of the FAPRI numbers, the very small increase by the year 2001, 2002, will probably never materialized because other costs not getting factored in and I know they did not report on dairy, but on their dairy analysis, 20 of the 22 farms would incur major losses in farm income.

So our concern is, increasing the imports up to the 5 percent level, regardless of our surplus, can have devastating implications, far greater than the amount we are talking about on payments.

We can talk \$1, \$2 drops in prices and that is a very real concern. There is also a very real concern about some of the labor consequences, environmental provisions, food safety issues, and the whole question of why we should be pitting our farmers against farmers in other countries, producing under very different circumstances.

Mr. MITCHELL. National Farmers Union opposes the agreement as it is currently negotiated. It is seriously flawed. We have some real concerns about losing section 22. We see in the last week and from this spring the problems that we are having with Canadian Durham, and even the feed quality wheat from Canada going as far south as the Texas Panhandle, why we need some sort of import controls.

We also have, as Kathy Ozer mentioned, a problem with the 5 percent minimum access and to be as brief as possible, if every dairy producer in this country had the same number of cows and the same amount of production, displacing 5 percent means we take 1 out of 20 out. How do we choose which one out of 20? But reality is that we have 35 or 50 head of cattle, dairies in some parts of the country, and we have 3,000 head cows in other parts of the country.

I think I know which ones will be taken out. So instead of 1 in 20, are we taking out 1 in 10 or 1 in 7 and how do we make that determination? How does that affect our rural communities?

We also have some problems with the harmonization aspects of the agreement. It can and probably will threaten food safety in this country, but more importantly, from the producers side, it could easily erode consumer confidence in the food supply, which is a double-edged sword that cuts on consumption of both imported and domestically produced products.

As Wayne Boutwell mentioned earlier, we also have some serious concerns about how we are going to pay for it.

Mr. WENSTRAND. Mr. Chairman, I would strongly echo Wayne Boutwell's comments as far as the GATT itself versus the implementation language. One of the bigger questions I think we still need to remember that we will still be facing, even with the implementation of the GATT, substantial export subsidies out of the European Union.

I think it has been referenced several times and I think we want to keep remembering that as far as our market development efforts.

I think the bigger question—I think in world markets I don't know. We know there is probably 2½ to 3 billion people in the world that are living in areas, places in China, India, places in Southeast Asia, places like Mexico where various stages of economic reform are going on, various stages of political reform, but initially economic reform, incomes are rising. We know the food demand is going to go up.

I am not sure who is going to produce that. We know that technology is changing. We know technology transfers easier today than ever before, but I think that U.S. producers want to have the opportunity to participate in those markets.

Again, I think that is going to be a bigger and bigger question, who is going to produce that additional food as we go into the next century.

Mr. HOFNER. I will not repeat many of the good comments that have been made, but I will add one other factor. It is an area where I think there has been an assumption that things have worked out well and that is for the green box, for commodity, and conservation programs for environmental reasons.

The language is extremely unclear and ambiguous, and as far as we understand, there is nothing in the proposed implementing language or in the proposed report language that would do anything to clarify that. I think it is a very important problem.

Mr. ASBRIDGE. The American Agriculture Movement is not supporting the GATT agreement as it is presently constructed. For a variety of the reasons, most of which have been articulated, but one overall reason is that we view these programs as a mechanism to pit us against foreign producers when it is really a mechanism to get Congress and the taxpayer to subsidize the grain export industry or any industry at the producer's expense.

If the producers got benefits out of these programs, direct benefits through increased prices, then we would support it, but since that does not appear to be what is going to happen and the two gentlemen from the universities here this morning would basically support that, we do not see how we can ask the taxpayer to support us when it is not supporting us.

Mr. SARPALIS. Cal.

Mr. DOOLEY. Yes, Mr. Wenstrand. I really appreciated your testimony and I was intrigued by one statement that you made, that your association had at least had discussions on replacing deficiency payments with marketing loans with 100 percent of the 5-year average price.

Again, I think that addresses some of the issues we discussed earlier as another mechanism of providing some level of risk management because it is really, as a farmer, the risk oftentimes is the volatility that is most concerned.

I was just wondering, is there a level of support? Do you think there is a level of support within your industry for maybe shifting to something like this that would be more market based?

Mr. WENSTRAND. You mean through a marketing loan concept?

Mr. DOOLEY. Yes.

Mr. WENSTRAND. Our committee, our task force, one of the many farm bill committees and task forces, we have talked about it. I will

tell you there has not been an overwhelming strong support for that consensus.

Again, looking at flexibility there are a couple of ways you can do it. Quite frankly, under that scenario, probably direct payments as far as to corn, as far as corn production would probably come down but they might go up under say an oilseed program. So I do not think—

Mr. DOOLEY. What happens if you expanded that whole concept to all commodities? Would they then not—

Mr. WENSTRAND. I think that was the concept that you would have some sort of across-the-board or at least the program crops, feed grains, other associations will have to speak for themselves but feed grains, the major crops, you would have some sort of across-the-board marketing loans. The question of course is how high should they be.

I have a question, I do not know how that affects marketing decisions, how that affects the market. Are producers going to have to spend time worrying about when the low point in the market is? Again, it is just an option that would give—we looked at it to try to figure out how to give producers flexibility, again.

Also, your point on prices, as far as the risk management, is well taken.

Mr. DOOLEY. Mr. Stallman, the Farm Bureau has the tradition of trying to move to more market oriented policies, this obviously would be one mechanism to get there and also provide a level of income support as well as risk management.

Has the Farm Bureau considered something along these lines?

Mr. STALLMAN. We are looking at a wide variety of options in all of our farm bill task force and study committees right now.

I have heard that concept mentioned. We are not prepared at this time to sign off on it, but we are really not ruling out anything that we are looking at and considering for the upcoming debate on the 1995 farm bill.

Mr. DOOLEY. Mr. Boutwell, you really, I think, again touched on a real critical issue that sometimes does not get as much attention in the farm bill debate as it should. That is the research side. I think anyone that is in agriculture understands that income is also a product of reduced input cost or increased production, which can enhance net farmer income.

I am interested to know if there would be support among any commodity groups—you represent, obviously, program commodities as well as nonprogram commodities—if we redirected some of the funds. If we were going to transition from direct farmer subsidies, or income subsidies, we could try to apportion this money into research dollars, and we could maybe bracket it into entitlement spending to ensure that we would have some of the public funds to support some of the private efforts in terms of research.

Mr. BOUTWELL. Congressman Dooley, I guess in terms of looking at that, we have asked that same question ourselves. The problem you get into is the budget battle of saying we are going to cut one program in order to expand the research program on the other side. That gets into an awful difficult debate, as you well know.

It is one of those things where you have to reach the point where you do not have one and say now what will we do and I do not

think we have reached that point yet. Long term it seems to me the things I talked about in my testimony; like research to be competitive and develop new products, and growth in markets are absolutely critical as sufficient income support erodes.

Now, how you get there and are we at the point to where we are saying that we no longer have an effective program, we need to switch those funds, I do not know whether we are there yet, probably not.

Mr. DOOLEY. I would just again say this is something important for all the farm groups and the commodity groups to determine. If we do have declining budgets going to agriculture how do we make the most cost-effective investment of those funds. I think this is an area which we should be considering.

It is inevitable we will become more market oriented in any policy that comes out, and how do we become competitive in the international marketplace? It will not be in labor, so it has to be in high-tech, or in that area, and an idea or policy that embraces something along this line is something that should be part of the discussions that all of you are having in terms of the 1995 farm bill.

Mr. SARPALIUS. Mr. Minge, any more questions?

Mr. MINGE. No, thank you.

Mr. SARPALIUS. Let me thank all of you again for your testimony, your comments, the great job you did on the questions. I said earlier this is the beginning of a long process.

Kathy, I might mention that we have already scheduled two hearings during August break, field hearings, and we will be holding more of them as time goes on.

Thank you so much for your time and your efforts to be here today. The subcommittee is adjourned.

[Whereupon, at 1:20 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

**Statement by
Abner Womack, Co-Director
The Food and Agricultural Policy Research Institute (FAPRI)
University of Missouri-Columbia**

**Before
The House Agricultural Subcommittee
on General Farm Commodities**

July 14, 1994

Dear Chairman and Members of the Subcommittee:

I welcome the opportunity to review the economic outlook for U.S. Agriculture. This outlook is influenced by budget constraints and pending trade agreements as we enter the 1995 farm bill debate. I am a member of a consortium of universities that have been involved in the development and utilization of a global econometric model for the specific purpose of evaluating policy options facing U.S. and foreign agriculture. This consortium includes Iowa State University, Texas A & M University, University of Arkansas, Arizona State University and more recently North Dakota State University. Funding recently has allowed for the further development of regional models of the U.S. and more detail regarding trading nations globally. In conjunction with Texas A & M representative farm simulations, these models are being modified to handle a broader range of subjects including environmental concerns associated with the production of major crops and livestock. More attention will also be given to the fruit and vegetable industry, a thrust recently added with Arizona State University. Analysis regarding global rice production and trade is conducted jointly with University of Arkansas.

My comments are based on analysis conducted by these institutions associated with The Food and Agricultural Policy Research Institute (FAPRI). More detail on the United States is provided in the FAPRI 1994 U.S. Agricultural Outlook, (staff report #1-94), April 1994. More detail on major importing and exporting countries is in the FAPRI 1994 International Agricultural Outlook, (staff report #2-94) and our briefing papers titled "Implementation of the Uruguay Round for U.S. Agriculture" (University of Missouri) and "Implementations of the Uruguay Round for Agriculture" (Iowa State University). Our analysis reflects a global assessment of the agricultural industry. General economic information is consistent with projections made by the WEFA Group and Project LINK of the United Nations.

Overview for the Extension of the 1990 Farm Bill Through the Year 2002

Conditioning assumptions for the baseline projections over the next ten years include:

- No change in domestic or foreign agricultural policies throughout the time of the analysis from policies currently in place
- Incorporates CAP reform by the European Union and the implementation of the NAFTA combined with the PROCAMPO support policy in Mexico
- Conservation Reserve Program contracts will begin to expire in 1995 and roughly half of the land will return to production of base crops
- rBST is approved for commercial use with 65 percent of the herd utilizing this product by 1998 and beyond
- Uruguay Round GATT agreement is not incorporated in the baseline, but has been treated as a separate analysis
- No adverse weather conditions in the U S or other major production regions
- Export enhancement and market promotion programs continued at about \$1.1 billion each year

The likely environment for the 1995 farm bill debate based on these conditioning constraints reflect the following estimated consequences for the later half of the 1990's:

Crop sector

- Total crop planted area to increase over time at a modest pace of about 1.5 million acres per year
- Acreage Reduction Program (ARP) rates to remain low. Cotton should see the highest ARP rates of about 12.5 percent. Rice and oats are at the other extreme with 0 percent ARP's
- Margins between program participants and non-participant net returns per acre decline over time. This reflects higher market returns for non-participants relative to participants returns facing frozen government support
- Commodity prices average in the low to moderate range, but with the potential for extremely volatile movements in any of the next few years

- Total exports recovering but not attaining fiscal 1993 levels until 1998, caused by large European supplies and poor economic conditions in Former Soviet Union and East Europe, growing afterwards at about 2.5 to 3.0 percent per year.
- Increasing demand for domestic commodities reflecting strength from the livestock sector and industrial uses
- Stocks recover to moderate ranges with government held reserves eventually zero except for 150 million bushels of wheat
- Stock levels not adequate to buffer a major natural disaster in the next two to three years without substantial price pressure
- Stock levels reflect lower land reserves with 36 million acres in the CRP, marketing loan incentives limiting government ability to obtain stocks and relatively low loan rates

Livestock sector

- Production of beef, pork, broilers, and turkey increasing from 67 billion pounds in 1993 to 77 billion by 2002, averages 2 percent growth in the first half of the decade and about 1 percent in the later half
- Per capita meat consumption increases modestly, growing about 5 pounds over the later part of the decade
- The retail meat bundle price increases by only 9 cents over the projection period as the mix of meat products continue to shift towards the less expensive poultry products
- Livestock prices are mixed reflecting production cycles. Lowest prices expected in 1996 when beef and pork production peak at the same time

Dairy

- Milk production expected to grow an average 0.9 percent during the rBST adoption period and about 0.7 percent per year afterwards

- Milk prices will be depressed for the first few years of the projection period, as sector responds to higher growth rates in production per cow
- Strength in cheese demand expected to continue, exceeding 31 pounds per capita by the end of the decade
- Cheese prices projected to remain well above support prices

Net Farm Income

- Returns to program crop producers reflect significantly lower ARP rates and favorable input cost situations compared to conditions as they existed in the mid-80's. This holds particularly for energy and interest costs
- Net farm income is projected to decline from around \$49 billion in 1994 to a low of \$42 billion by 1996 when the cattle and pork cycles simultaneously reduce livestock receipts while farm production expenses continue to rise. As cattle and pork receipts begin to recover and crop receipts begin to increase, net farm income is projected to grow steadily beyond 1997

Government Cost

- Net CCC outlays on farm programs are projected to fall by \$5.2 billion in fiscal 1994 from the 1993 level of \$14.9 billion
- Net outlays are projected to range between \$8 billion and \$9 billion for the remainder of the 1990's as prices remain relatively stable--again, conditioned on "average" weather

Budget Constraint Implications

- Participation in farm programs remains relatively high despite the fact that real government support continues to decline. Even though farmers have been faced with frozen target prices, 15 percent flex, and constant base yields, net returns have remained fairly constant as ARP rates have adjusted.
- Additional program cuts will alter this situation. Analysis conducted in 1993 by FAPRI suggests that additional cuts in the \$5

billion range over five years will reduce the difference between program participants and non- participant returns, weakening traditional farm programs.

- Trend towards less government and more market oriented signals, compounded by budget cuts, is exceeding the pace of price and income support reductions by other competing countries
- Pace of budget cuts are beginning to strain traditional safety nets for producers and consumers
- Less government involvement in production agriculture will likely continue to imply less government and total stock holding over time. These reduced stock levels will produce greater risks to the livestock industry and eventually the consumer. The 1988 drought occurred when stock holdings of wheat, feed grains and oilseeds were fairly high. Analysis we conducted in 1989 indicated that had corn stocks been only 2 billion bushels--a figure well above USDA's current estimates for the 1994 crop--consumer food costs would have been \$40 billion higher over a five year period than was the actual case. Note that our government cost projections for fiscal years 1995-2000 sum to \$41 billion.

Uruguay Round Implications

- Purpose of trade agreement is increased trade, and higher levels of world economic activity--higher economic activity translates into higher incomes. Over time, higher incomes improve demand for most U.S. agricultural products
- The strong likelihood of stimulated world income growth in conjunction with reduced government involvement in agricultural trade and production is a slow winner in nearly all agricultural commodities in the U.S.
- U.S. net farm income averages \$1.4 billion higher under our GATT analysis for the 1995-2002 period than is the case without GATT
- Export sales of corn, soybeans, wheat, sorghum and rice are expected to go up under the agreement. For cotton, export outlook is less clear due to textile agreement

- By the year 2002, wheat exports are projected to be 94 million bushels higher, corn 136 million bushels. Strongest growth in world demand for soybeans is in the products--although some questions remain in the oil sector
- Strongest acreage increase by 2002 is expected to be in wheat, up an additional 4 million acres, corn 2 million, soybeans about 1 million with marginal increases for cotton and rice
- Wheat prices are estimated to average 8 cents per bushel higher over the 1995 to 2002 time period, corn 10 cents, soybean 12 to 27 cents, rice 50 to 70 cents per hundredweight and cotton up marginally
- U.S. broiler exports are estimated to be up an additional 500 million pounds, 19 percent by the end of the decade. Beef imports increase by 200 million pounds reflecting the repeal of the Meat Import Act, but are offset by an expected export increase of 330 million pounds. Net pork trade should increase by about 1 billion pounds or 6 percent of domestic production
- Barrow and gilt prices go up in all but the final year of the analysis. Prices return to baseline level in the final year of analysis as a result of an extra 1 billion pounds of pork products. Prices of market cattle and feeder calf increase each year, with the largest increase of \$2 per hundredweight coming in 1999.
- Milk prices are estimated to fall in the first three years of the agreement. Requirements to cut back the Dairy Export Incentive Program for non fat dry milk drops non-fat dry milk prices and the dairy sector faces higher feed costs
- Dairy cows numbers and production decline slightly from these initial impacts but recover later as income growth offsets these initial losses with all milk prices 16 cents per hundredweight above baseline estimates by the year 2002
- Government outlays are projected to decline in all years. Total savings in the Commodity Credit Program (CCC) from FY 95 to FY 99 are projected at \$5 billion

- The analysis is strongly conditioned on the assumption that all countries play by the rules and that the U.S. Government adjusts ARP's in 2.5 percent blocks when price increases signal a reduction

Areas of Concern

- The current farm program is beginning to shift or tilt out of balance. This is reflected primarily in the tight stock and low ARP situation. Several factors are contributing
 - 36 million CRP acres
 - Limited ability to recover from a short crop
 - Low government stocks
 - Tight budget for program management
- Consequences include:
 - Higher than normal risks for food security in the event of a short crop
 - Higher than normal risks for the livestock industry with little or no government stocks
 - Higher than normal risks for ensuring adequate trade supply
 - Reduced incentives for staying in farm programs if budget cuts continue to occur
 - Less than normal funds for food assistance
 - Less than normal funds for conservation and environment
 - Less than normal funds for rural growth and development

It is entirely likely that we will see adequate crops this year. Given the rainfalls of the past few weeks, crop yields in the major corn-belt states may even approach and even exceed the

records observed in 1992. Yet for the third time since 1981 we have pulled corn, soybean and wheat stocks to very low levels. We have been lucky every time--so far

We may well go in to the debate on the 1995 farm bill with corn stocks back over the 2 billion bushel mark. And we may again conduct the debate acting like there never was a concern over short crops. Yet look at how the market behaved over the past two to three months. On the basis of forecasts--not actual weather, but weather forecasts we set contract highs. Soybeans above \$7.00 per bushel, corn approaching \$3.00. Then the weather forecasts change and we have dropped the price of beans by more than \$1.00, corn by more than 50¢. Cotton and rice prices have also dropped. Over a six week period of time we set contract highs and lows for beans and corn. This is a classic example of price instability.

If we have a good crop this year and only limited debate regarding stocks policy, it may well come back to haunt us over the life of the next farm bill. This will be a difficult issue to address with more than two billion bushels of corn stocks, or more than a billion bushels of wheat in the bins. But just as quickly as those stocks can build, they can be depleted. Two short crops in a row will cause significant food price increases in the United States. We may never get two back-to-back short crops, but can we afford the risk?

The current farm program is delicately balanced around a set of interlinked objectives. These include adequate income for crop and livestock producers, adequate food supplies at reasonable prices, maintaining a variable export market, maintaining adequate stocks in the event of short crops, protecting the input industry, encouraging conservation and environmentally sound practices and the economic enhancement of rural areas. All of this is to be achieved at the least cost to the government. Traditionally meeting these objectives required CCC outlays of around \$10 to \$14 billion per year. Managing this type program significantly below these levels will not achieve all of the above objectives. Budget pressures are beginning to unravel the necessary management options for a balanced set of objectives. Several red flags are beginning to emerge. FAPRI analysis suggest that additional budget cuts in the \$5 billion range will signal the end of traditional farm programs. Incentives for remaining in farm programs will be extremely low and government stock activity for food security will be non-existent. These risks, and their implications, represent tough questions to be dealt with during the 1995 farm bill debate.

Again Mr. Chairman, I thank you for this opportunity to appear before the Sub-Committee. FAPRI and the other members of our consortia look forward to working with the Sub-Committee and the full Committee as the debate on the farm bill unfolds.

**STATEMENT OF
EDWARD G. SMITH
AGRICULTURAL AND FOOD POLICY CENTER
TEXAS A&M UNIVERSITY
BEFORE THE
GENERAL COMMODITIES SUBCOMMITTEE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES**

Mr. Chairman and Members of the Subcommittee, thank you for the invitation to appear today to discuss the farm level impacts of extending current farm program provisions through crop year 2001. Over the past four years, the Agricultural and Food Policy Center (AFPC) at Texas A&M University has worked closely with the Food and Agricultural Policy Research Institute (FAPRI), at the University of Missouri, to provide an independent third party evaluation of the impacts of policy proposals as requested by the House and Senate Agriculture Committees. Our efforts also include a collaborative working relationship with the faculty of the National Institute for Livestock and Dairy Policy (NILDP) at Cornell University.

Funds provided by the Congress for these collaborative arrangements have allowed us to develop and maintain data on over 75 representative farms and ranches chosen from major production areas throughout the United States as a result of consensus discussion with your staff (Figure 1). The information necessary to simulate the economic activity on these farms are developed by panels of producers located in the chosen areas. Normally, two farms in each production area are developed with separate panels of farmers: one is a moderate size full-time farm, while the other is generally two to five times larger.

The data collected from these panels are analyzed in a whole farm simulation model (FLIPSIM) that has been developed and refined over more than a decade under the leadership of James Richardson of our faculty. The producer panel is provided pro-forma income

statement, balance sheet, and cash flow statements over a five year period. The producer panel must approve the pro-forma financial statements as being representative of their operations before the farm data are used for policy analyses. Subsequently, each panel member receives all of our reports that include the representative farm they helped develop. Our goal is to update the representative farms every three years, although if a member of a panel concludes that the farm or ranch is no longer generating representative results, it is not unusual for him or her to call us. We update these farms promptly before they are again used in a report to the Congress. The panel members of the farms utilized in this study are listed in the Appendix to this testimony.

The farm level simulations discussed today utilize the prices and farm program parameters generated by FAPRI, and reported on previously by Abner Womack. Because of the brevity requested by your committee, comments on the analysis will be restricted to the major program crops: wheat, feed grains, cotton, and rice. For illustrative purposes, descriptive data and charts showing cash receipts, net cash income, change in real equity, and the probability that the farm remains economically solvent, are included for representative farms located in major producing states (Tables 1 through 4, Figures 1 through 14).

The selected panels include moderate and large scale feed grain farms in Northwestern Iowa, the Northern High Plains of Texas, and South Central Nebraska; wheat farms in South Central Kansas; cotton farms in the Southern High Plains of Texas and the Southern San Joaquin Valley of California; and a Northeastern Arkansas rice farm. Those interested in greater detail, or other farms, are referred to AFPC Working Paper 94-1.

All farms used in the analysis have been updated through crop year 1992. Actual yields and prices reflective of the area are utilized for 1992 and 1993 with FAPRI projections

utilized for 1994-2001. The crop farms are assumed to begin with 20 percent initial intermediate and long term debt based on debt information provided by ERS-USDA and the panel members. The farms utilize the flex alternatives when profitable and are structured so that government payments are not reduced by payment limits. It is assumed that the farm will contribute between \$25-50,000 annually to cover family living expenditures. No off-farm income is included in the analysis.

In general the results indicate:

- A continuation of cost-price squeeze conditions are evident on the program crop farms. FAPRI does not project market prices to exceed target price levels over the study period, thus revenues increase only modestly (less than 11 percent) while input costs increase significantly (more than 25 percent).
- While most farms feel the pressure from the cost-price squeeze, economies of scale are indicated in most regions. Therefore, the larger scale operation is more resilient than its moderate scale counterpart. An exception, however, occurs in rice where the larger operations appear as vulnerable as the moderate farms.
- Cotton, wheat, and rice farms continue to receive over 15 percent of their revenue through government payments and thus are relatively more vulnerable to actions that reduce government support.
- Commodities where economic adversities are most likely to result in pressure for policy changes include wheat and rice.

The following comments are designed to briefly summarize the results by commodity for the farms presented here.

- **Feed grain** farms experienced generally more favorable conditions than other crop farms due, in part, to the oilseed interaction. The three large scale farms

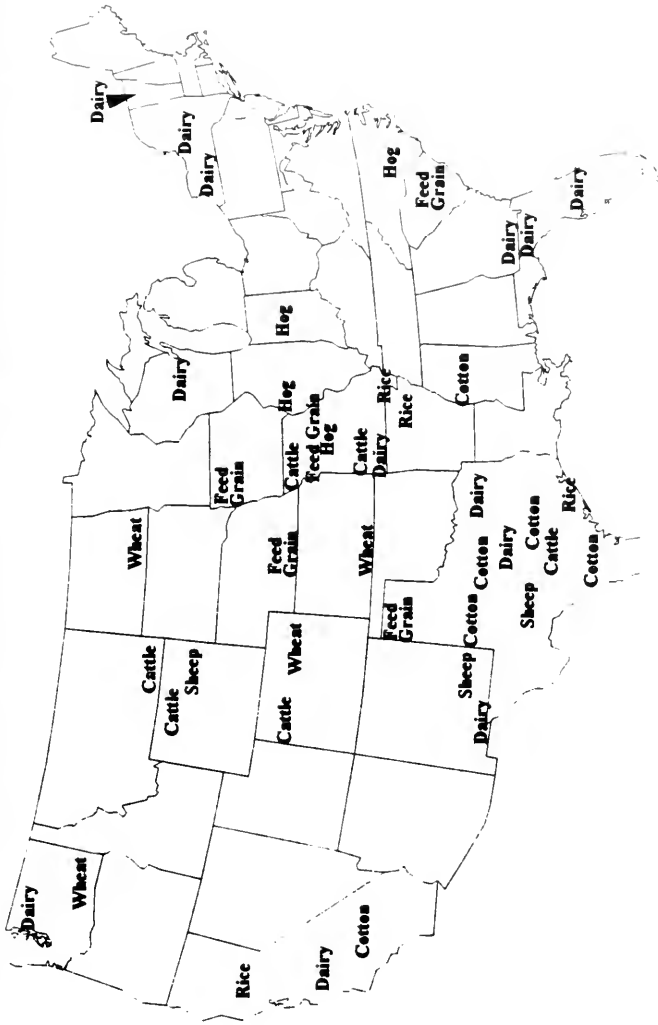
presented here experienced increased real net worth. The three moderate scale farms experienced reduced net worth, however only a 3 to 7 percent increase in cash receipts would result in their net worth maintenance. Overall, of the ten feed grain farms monitored nationally, six increased real net worth.

- **Wheat** farms experienced the greatest financial stress of the crop farms with specialized wheat farms facing the most adversity. Both the moderate and large Kansas wheat farms presented here lost 40 and 10 percent of their net worth, respectively. The moderate size farm was more adversely affected than the large scale counterpart. An 8 percent increase in receipts would, however, at least allow the large farm to maintain net worth. The moderate Kansas operation would need to experience increases in cash receipts of over 29 percent in order to abate the decline in real net worth. The Kansas farms are not unique, seven of the eight wheat farms monitored by AFPC lose real net worth, with only the large scale Washington operation being able to maintain real equity.
- **Cotton** farms experienced generally more favorable conditions than non-feed grain crop farms. Compared to past years, adjustments have been made to improve income. The two California cotton farms presented here experienced real net worth growth, as did the farms in Central and Coastal Texas. Farms in the Texas Southern Plains are reflective of the operations losing real equity over the 1992-2001 period (including the Rolling Plains and Mississippi). An increase in receipts of 4 percent, however, would allow the large Texas Southern Plains farm to maintain real net worth. The moderate Texas Southern Plains farm would need to see receipts increase by 14 percent.

- Rice farms' financial conditions were heavily influenced by export market conditions (sales to Japan) and government payments in 1993. Large income increases for all farms were experienced in 1993. Declines in farm income were consistently experienced thereafter. In other words, rice farms will be living off their 1993 gains. For example, the Arkansas farm would experience a 14 percent loss in real equity by the year 2001. An increase in receipts of 4 percent, however, would allow it to protect equity. Of the seven rice farms monitored nationally, only the moderate size operation in Missouri experiences real equity growth. The Texas farms and the large California and Missouri operations would need between a 10-15 percent increase in receipts before net worth would not be eroded.

These results indicate the diversity and instability of returns in agriculture. Relatively speaking, feed grain farms are doing better than any other sector. The United States is in a more dominant position internationally in feed grains relative to the other program commodities. Our farm programs provide protection in the face of international market forces, particularly for the commodities in which the international markets dominate.

Figure 1. Representative Farms Maintained by AFPC



CHARACTERISTICS OF PANEL FARMS IN MAJOR PRODUCTION REGIONS

- IAG760** a 760-acre Northwestern Iowa (Webster County) moderate size grain farm that grew 340 acres of corn and 363 acres of soybeans in 1992. The farm continued to plant corn on its NFA acreage and received about 59 percent of its receipts from corn.
- IAG1500** a 1,500-acre Northwestern Iowa (Webster County) large grain farm that grew 771 acres of corn and 648 acres of soybeans in 1992. The farm continued to plant corn on its flex acreage and generated 63 percent of its gross receipts from corn.
- TXNP1600** a 1,600-Northern High Plains of Texas (Moore County) moderate size irrigated grain farm with 610 acres of wheat, 266 acres of sorghum, and 447 acres of corn in 1992. The farm did not flex any base acres and generated about 67 percent of its total receipts from feed grains.
- TXNP4500** a 4,500-acre Northern High Plains of Texas (Moore County) large irrigated grain farm with 1,596 acres of wheat, 805 acres of sorghum, and 996 acres of corn in 1992. The farm did not flex any of its base acres and generated about 65 percent of its total revenue from feed grains.
- NEG800** a 800-acre South Central Nebraska (Phelps County) moderate size irrigated grain farm that grew 684 acres of corn, 50 acres of soybeans, and 30 acres of alfalfa in 1992. The farm continued to plant corn on its NFA acreage and generated about 81 percent of its gross receipts from corn.
- NEG1575** a 1,575-acre South Central Nebraska (Phelps County) large irrigated grain farm that grew 1,425 acres of corn in 1992. The farm generated 97 percent of its revenue from corn.
- KSW1180** a 1,175-acre South Central Kansas (Sumner County) moderate size grain farm that grew 1,045 acres of wheat and 71 acres of sorghum in 1992. The farm did not flex any base acres and generated about 94 percent of its total revenue from wheat in 1992.
- KSW2800** a 2,800-acre South Central Kansas (Sumner County) large size grain farm that grew 2,240 acres of wheat and 420 acres of sorghum in 1992. The farm flexed NFA wheat to sorghum. Wheat generated about 88 percent of the revenue on this farm.

Table 1. Characteristics of Panel Farms in Major Production Regions.

	IAG760	IAG1500	TXNP1600	TXNP4500	NEG800	NEG1575	KSW1180	KSW2800
Total Cropland	760.	1500.	1600.	4500.	800.	1575.	1175.	2800.
Acres Owned	140.	132.	320.	900.	400.	1040.	388.	250.
Acres Leased	620.	1368.	1280.	3600.	400.	535.	787.	2550.
Total Pasture	0.	0.	0.	0.	0.	0.	25.	250.
Acres Owned	0.	0.	0.	0.	0.	0.	8.	25.
Acres Leased	0.	0.	0.	0.	0.	0.	17.	225.
Assets (\$1000)								
Total	425.	526.	576.	1253.	1128.	2378.	466.	690.
Real Estate	305.	285.	175.	510.	805.	1924.	294.	327.
Machinery	111.	192.	381.	638.	219.	379.	172.	352.
Other & Livestock	8.	49.	20.	105.	104.	75.	0.	11.
Debt/Asset Ratios*								
Total	0.22	0.25	0.21	0.22	0.19	0.20	0.22	0.19
Intermediate	0.28	0.32	0.22	0.23	0.20	0.25	0.24	0.19
Long Run	0.19	0.19	0.19	0.19	0.19	0.19	0.21	0.20
1992 Livestock								
Beef Cows	0.	0.	0.	0.	100.	0.	0.	0.
1992 Gross Receipts (\$1,000)**								
Total	186.4	263.2	330.4	811.8	338.6	620.4	126.3	256.3
Cattle	0.0 0.0%	0.0 0.0%	0.0 0.0%	0.0 0.0%	53.1 15.7%	0.0 0.0%	0.0 0.0%	0.0 0.0%
Corn	109.6 58.8%	166.6 63.3%	159.9 48.4%	340.3 41.9%	275.2 81.3%	600.4 96.8%	0.0 0.0%	0.0 0.0%
Soybeans	76.8 41.2%	96.6 36.7%	0.0 0.0%	0.0 0.0%	10.3 3.0%	0.0 0.0%	0.0 0.0%	0.0 0.0%
Wheat	0.0 0.0%	0.0 0.0%	108.2 32.8%	283.2 34.9%	0.0 0.0%	0.0 0.0%	118.5 93.8%	225.8 88.1%
Sorghum	0.0 0.0%	0.0 0.0%	62.2 18.8%	188.3 23.2%	0.0 0.0%	0.0 0.0%	7.8 6.2%	30.6 11.9%
Other Income	0.0 0.0%	0.0 0.0%	0.0 0.0%	0.0 0.0%	0.0 0.0%	20.0 3.2%	0.0 0.0%	0.0 0.0%
1992 Planted Acres***								
Total	703.1	1419.4	1322.4	4521.3	764.0	1425.0	1116.3	2660.0
Corn	340.1 48.4%	771.4 54.3%	446.5 33.8%	995.6 22.0%	684.0 89.5%	1425.0 100.0%	0.0 0.0%	0.0 0.0%
Soybeans	363.0 51.6%	648.0 45.7%	0.0 0.0%	0.0 0.0%	50.0 6.5%	0.0 0.0%	0.0 0.0%	0.0 0.0%
Wheat	0.0 0.0%	0.0 0.0%	609.9 46.1%	1596.0 35.3%	0.0 0.0%	0.0 0.0%	1045.0 93.6%	2240.0 84.2%
Sorghum	0.0 0.0%	0.0 0.0%	266.0 20.1%	804.7 17.8%	0.0 0.0%	0.0 0.0%	71.3 6.4%	420.0 15.8%

*Total debt/asset ratio includes accrued taxes that are not reflected in machinery and land debt.

**Receipts for 1992 are included to indicate the relative importance of each enterprise to the farm. Percents indicate the percentage of the total receipts accounted for by the livestock categories and the crops.

***Acreages for 1992 are included to indicate the relative importance of each enterprise to the farm; these values reflect acreage reduction percentages that year. Total planted acreage may exceed total cropland available due to double cropping. Percents indicate the percentage of total planted acreage accounted for by the crop.

CHARACTERISTICS OF PANEL FARMS IN MAJOR PRODUCTION REGIONS
Continued

- TXSP1360** a 1,360-acre Texas Southern High Plains (Dawson County) moderate size cotton farm that grew 820 acres of cotton in 1992. The farm did not flex any crops and generated all of its receipts from cotton.
- TXSP3310** a 3,310-acre Texas Southern High Plains (Dawson County) large cotton farm that grew 2,250 acres of cotton in 1992. The farm did not flex any crops and generated all of its revenue from cotton.
- CAC735** a 735-acre Southern San Joaquin Valley California (Kern County) moderate size cotton farm that grew 450 acres of cotton and 201 acres of alfalfa in 1992. The farm did not flex any crops and generated about 80 percent of its total receipts from cotton.
- CAC3150** a 3,150-acre Southern San Joaquin Valley California (Kern County) large cotton farm that grew 1,800 acres of cotton and 1,002 acres of alfalfa in 1992. The farm did not flex any crops and generated about 74 percent of its total revenue from cotton.
- ARR1260** a 1,260-acre Arkansas (Poinsett County) moderate size rice farm that grew 580 acres of rice, 138 acres of wheat, and 580 acres of soybeans in 1992. The farm flexed NFA rice and wheat to soybeans and received about 72 percent of its revenue from rice.

Table 2. Characteristics of Panel Farms in Major Production Regions.

	TXSP1360	TXSP3310	CAC735	CAC3150	ARR1260
Total Cropland	1360.	3310.	735.	3150.	1260.
Acres Owned	340.	1100.	368.	1050.	440.
Acres Leased	1020.	2210.	367.	2100.	820.
Assets (\$1000)					
Total	321.	976.	1184.	3481.	1200.
Real Estate	151.	506.	771.	2451.	689.
Machinery	166.	402.	351.	790.	478.
Other	4.	69.	62.	240.	33.
Debt/Asset Ratios*					
Total	0.31	0.24	0.22	0.23	0.21
Intermediate	0.42	0.28	0.26	0.31	0.22
Long Run	0.19	0.19	0.19	0.19	0.19
1992 Gross Receipts (\$1,000)**					
Total	189.9	533.3	673.4	3003.7	446.4
Cotton	189.9	533.3	535.5	2229.7	0.0
	100.0%	100.0%	79.5%	74.2%	0.0%
Soybeans	0.0	0.0	0.0	0.0	103.9
	0.0%	0.0%	0.0%	0.0%	23.3%
Medium Grain Rice	0.0	0.0	0.0	0.0	162.5
	0.0%	0.0%	0.0%	0.0%	36.4%
Long Grain Rice	0.0	0.0	0.0	0.0	158.7
	0.0%	0.0%	0.0%	0.0%	35.6%
Wheat	0.0	0.0	0.0	0.0	20.4
	0.0%	0.0%	0.0%	0.0%	4.6%
Other Income	0.0	0.0	0.0	0.0	1.0
	0.0%	0.0%	0.0%	0.0%	0.2%
1992 Planted Acres***					
Total	819.9	2250.0	651.0	2802.0	1276.1
Cotton	819.9	2250.0	450.0	1800.0	0.0
	100.0%	100.0%	69.1%	64.2%	0.0%
Soybeans	0.0	0.0	0.0	0.0	580.1
	0.0%	0.0%	0.0%	0.0%	45.5%
Medium Grain Rice	0.0	0.0	0.0	0.0	290.0
	0.0%	0.0%	0.0%	0.0%	22.7%
Long Grain Rice	0.0	0.0	0.0	0.0	290.0
	0.0%	0.0%	0.0%	0.0%	22.7%
Wheat	0.0	0.0	0.0	0.0	116.0
	0.0%	0.0%	0.0%	0.0%	9.1%

*Total debt/asset ratio includes accrued taxes that are not reflected in machinery and land debt.

**Receipts for 1992 are included to indicate the relative importance of each enterprise to the farm. Percents indicate the percentage of the total receipts accounted for by the crop.

***Acreages for 1992 are included to indicate the relative importance of each enterprise to the farm; these values reflect acreage reduction percentages that year. Total planted acreage may exceed total cropland available due to double cropping. Percents indicate the percentage of total planted acreage accounted for by the crop.

Table 3. Implications of the 1990 Farm Bill and the January 1994 FAPRI Baseline on the Economic Viability of Representative Farms in Major Production Regions.

	IAG760	IAG1500	TXNP1600	TXNP4500	NEG800	NEG1575	KSW1180	KSW2800
Probability of Remaining Solvent (%)								
1992	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1993	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1994	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1995	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1996	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1997	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1998	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1999	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2000	100.00	100.00	100.00	100.00	100.00	100.00	99.00	100.00
2001	100.00	100.00	100.00	100.00	100.00	100.00	71.00	100.00
Average Annual Cash Receipts (\$1000)								
1992	186.40	263.20	330.40	811.78	338.48	620.41	126.27	256.34
1993	173.70	241.99	366.18	896.77	327.58	574.90	144.64	303.85
1994	198.31	278.74	342.63	838.18	355.52	653.72	128.50	268.67
1995	194.10	272.26	329.68	807.46	343.65	613.96	127.29	264.08
1996	193.46	271.38	323.36	792.96	340.86	623.46	124.30	260.63
1997	195.15	273.73	326.63	801.48	338.99	606.82	126.74	261.96
1998	197.09	276.32	332.19	813.74	349.23	648.27	124.07	257.61
1999	197.65	277.36	333.99	818.01	348.09	638.29	125.49	261.19
2000	206.61	288.81	331.28	811.38	346.20	615.82	124.90	259.57
2001	207.67	290.98	347.87	850.46	361.31	650.20	131.07	269.98
1995-2001 Average	198.82	278.69	332.14	813.64	346.90	628.12	126.26	262.15
Average Annual Net Cash Income (\$1000)								
1992	59.70	124.62	69.95	220.96	80.44	191.99	38.87	68.66
1993	51.26	111.13	107.27	319.61	76.97	171.47	56.04	111.91
1994	66.81	136.19	79.60	255.65	96.60	227.36	38.74	78.73
1995	62.71	132.11	68.33	220.04	80.01	197.12	29.60	77.56
1996	61.01	121.75	52.46	199.04	75.69	200.65	20.82	65.73
1997	54.45	123.94	46.33	188.42	66.91	169.54	19.96	54.48
1998	47.77	126.41	35.62	177.50	57.77	190.32	10.44	42.25
1999	45.42	127.13	17.70	169.05	50.55	179.43	5.91	32.09
2000	49.29	137.07	1.60	139.23	32.55	140.69	-3.35	21.24
2001	47.67	135.86	-6.69	149.81	37.99	156.63	-13.36	18.53
1995-2001 Average	52.62	129.18	30.76	177.58	57.35	176.34	10.00	44.56
Average Change in Real Net Worth (%)								
1992	4.41	10.76	1.81	13.59	3.43	4.55	-1.24	2.55
1993	5.23	20.55	7.61	30.46	4.60	6.13	-1.92	6.86
1994	5.61	28.69	9.51	41.46	6.10	8.84	-4.57	6.53
1995	6.01	39.81	8.74	47.46	4.72	10.40	-11.85	6.74
1996	6.80	43.91	4.17	52.33	3.22	11.18	-19.79	3.75
1997	3.24	51.41	0.20	54.76	1.91	10.74	-27.23	-2.03
1998	-2.34	57.09	-7.82	55.61	-1.56	10.36	-37.28	-7.47
1999	-5.97	62.41	-20.57	56.93	-4.45	10.31	-47.33	-15.66
2000	-11.19	67.94	-31.84	54.20	-9.55	8.73	-59.99	-23.86
2001	-15.26	72.94	-46.12	52.20	-13.35	7.02	-81.90	-32.88
1995-2001 Average	-2.67	56.50	-13.32	53.35	-2.72	9.82	-40.77	-10.20
Net Income Adjustment in Dollars (\$1000)								
Net Income Adjustment	7.09	-46.41	24.47	-57.75	17.63	-1.17	37.51	23.24
Net Income Adjustment as % Receipts (%)								
Net Income Adjustment	3.63	-16.97	7.27	-7.01	5.11	-0.19	29.23	8.72

Probability of Remaining Solvent - Chance that the farm will not be declared insolvent, i.e., the farm will maintain an equity to asset ratio greater than the minimum of 0.15 in each year.

Annual Cash Receipts - Total cash receipts from crops, dairy, livestock, government payments, and other farm related activities.

1995-2001 Average - Is an average calculated over the 1995-2001 period.

Annual Net Cash Income - Total cash receipts minus total cash expenses; excludes family living expenses, principal payments, and costs to replace capital assets.

Average Change in Real Net Worth - Percentage change in real net worth from January 1, 1992 to the end of each year in the planning horizon.

Net Income Adjustment in Dollars - Annual increase in income necessary to prevent the loss in real net worth.

Net Income Adjustment % Receipts - Annual increase in income necessary to prevent the loss in real net worth, expressed as a percent of cash receipts.

Table 4. Implications of the 1990 Farm Bill and the January 1994 FAPRI Baseline on the Economic Viability of Representative Farms in Major Production Regions.

	TXSP1360	TXSP3310	CAC735	CAC3150	ARR1260
Probability of Remaining Solvent (%)					
1992	100.00	100.00	100.00	100.00	100.00
1993	100.00	100.00	100.00	100.00	100.00
1994	100.00	100.00	100.00	100.00	100.00
1995	100.00	100.00	100.00	100.00	100.00
1996	97.00	100.00	100.00	100.00	100.00
1997	96.00	100.00	100.00	100.00	100.00
1998	90.00	100.00	100.00	100.00	100.00
1999	79.00	99.00	100.00	100.00	100.00
2000	56.00	96.00	100.00	100.00	100.00
2001	39.00	91.00	100.00	100.00	100.00
Average Annual Cash Receipts (\$1000)					
1992	189.89	533.29	673.43	3003.68	446.44
1993	217.67	612.22	759.30	3396.11	499.10
1994	174.56	487.34	635.01	2848.05	456.53
1995	180.28	503.87	638.70	2862.76	456.65
1996	175.55	490.03	640.89	2879.59	459.63
1997	166.39	464.19	645.81	2904.58	455.66
1998	177.00	496.18	653.49	2939.97	457.30
1999	178.15	498.29	646.22	2893.93	460.49
2000	188.19	526.59	640.78	2860.17	468.16
2001	189.52	529.51	638.26	2848.23	464.32
1995-2001 Average	179.30	500.95	643.45	2884.17	460.31
Average Annual Net Cash Income (\$1000)					
1992	51.84	138.59	159.69	642.68	97.77
1993	73.07	210.25	244.97	1039.18	160.12
1994	35.99	107.41	140.08	586.36	104.64
1995	34.90	104.90	126.16	516.36	98.72
1996	28.25	85.11	124.98	514.02	91.23
1997	15.43	53.34	119.73	486.59	77.98
1998	15.97	53.16	107.28	442.79	69.45
1999	5.50	33.40	82.39	314.60	55.58
2000	4.04	36.06	58.38	186.83	49.35
2001	-5.65	15.19	34.91	82.28	27.69
1995-2001 Average	14.06	54.45	93.40	363.35	67.14
Average Change in Real Net Worth (%)					
1992	5.18	8.59	6.24	14.65	3.08
1993	10.19	20.74	14.71	33.91	8.65
1994	4.08	21.97	18.49	44.43	8.84
1995	-2.51	21.41	19.75	50.54	10.03
1996	-13.28	17.80	20.59	55.60	8.37
1997	-27.48	11.54	20.98	59.26	6.58
1998	-43.02	3.31	19.61	62.33	3.82
1999	-66.28	-5.77	16.95	61.20	-2.27
2000	-95.48	-14.77	13.16	57.04	-6.58
2001	-129.49	-26.86	7.98	50.22	-13.61
1995-2001 Average	-53.93	0.95	17.00	56.60	0.91
Net Income Adjustment in Dollars (\$1000)					
1992	25.27	20.52	-11.62	-170.66	18.60
Net Income Adjustment as % Receipts (%)					
1992	13.75	3.99	-1.77	-5.80	4.02

Probability of Remaining Solvent - Chance that the farm will not be declared insolvent, i.e., the farm will maintain an equity to asset ratio greater than the minimum of 0.15 in each year.

Annual Cash Receipts - Total cash receipts from crops, dairy, livestock, government payments, and other farm related activities.

1995-2001 Average - Is an average calculated over the 1995-2001 period.

Annual Net Cash Income - Total cash receipts minus total cash expenses; excludes family living expenses, principal payments, and costs to replace capital assets.

Average Change in Real Net Worth - Percentage change in real net worth from January 1, 1992 to the end of each year in the planning horizon.

Net Income Adjustment in Dollars - Annual increase in income necessary to prevent the loss in real net worth.

Net Income Adjustment % Receipts - Annual increase in income necessary to prevent the loss in real net worth, expressed as a percent of cash receipts.

Figure 2. IOWA MODERATE GRAIN FARM (IAG760)

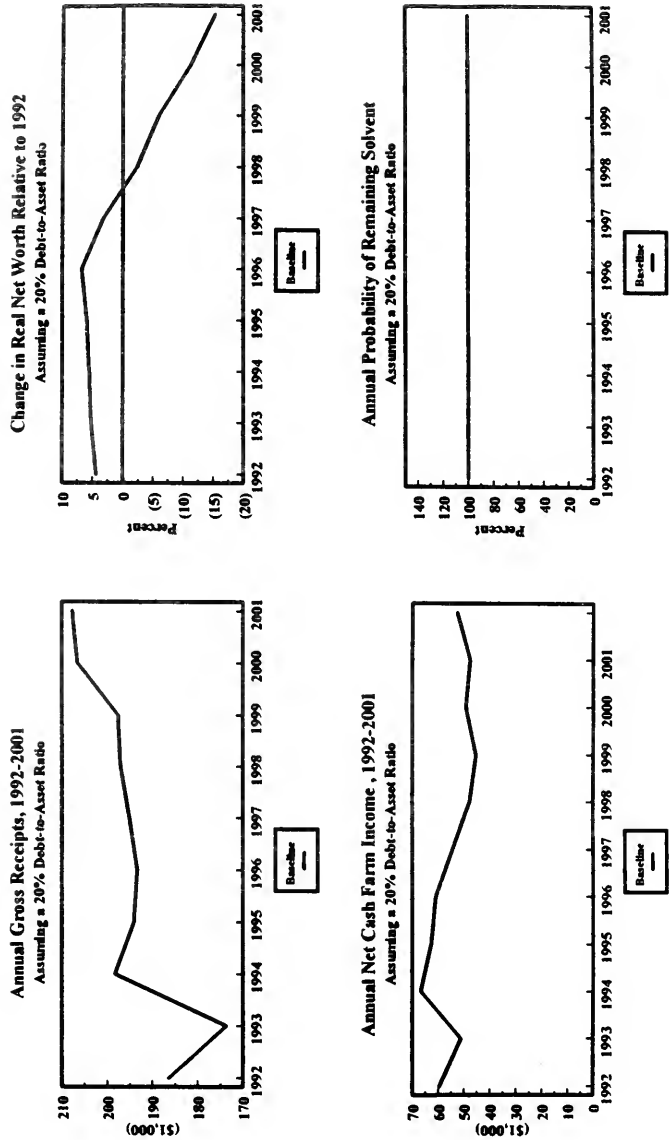
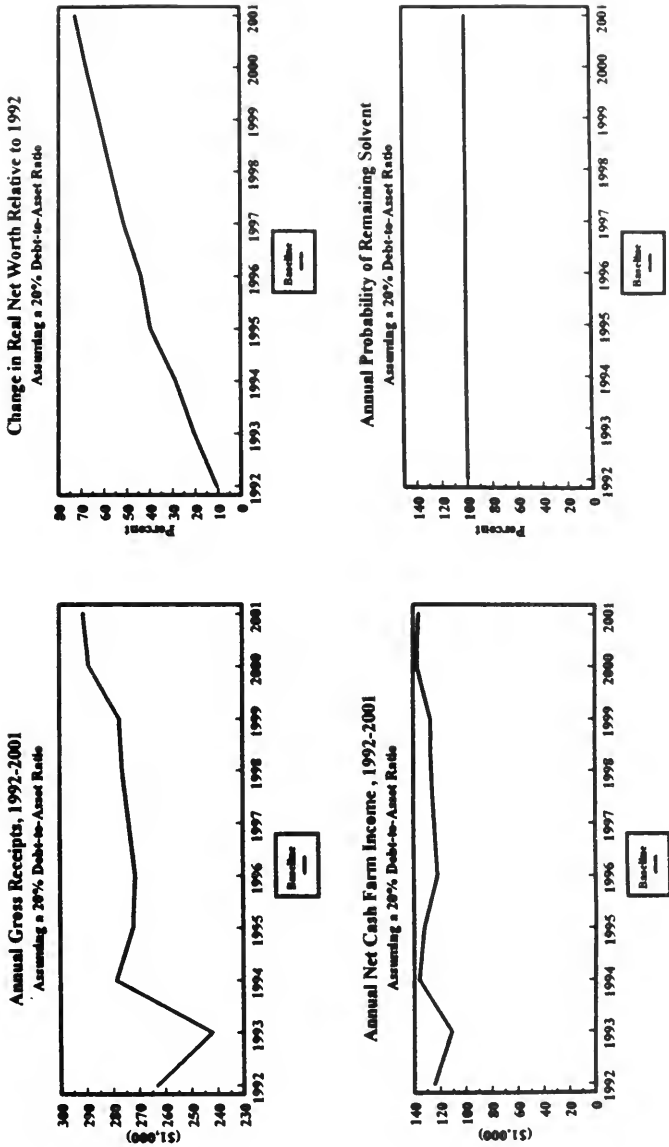


Figure 3. IOWA LARGE GRAIN FARM (LAG1500)



**Figure 4. TEXAS NORTHERN PLAINS MODERATE GRAIN FARM
(TXNP1600)**

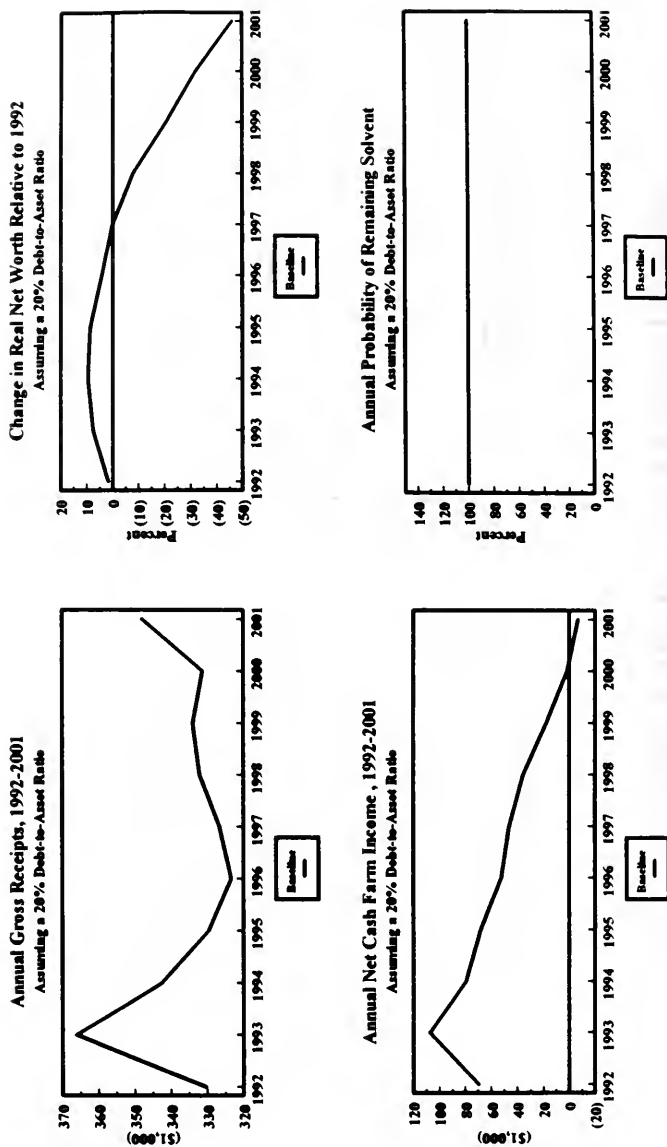


Figure 5. TEXAS NORTHERN PLAINS LARGE GRAIN FARM (TXNP4500)

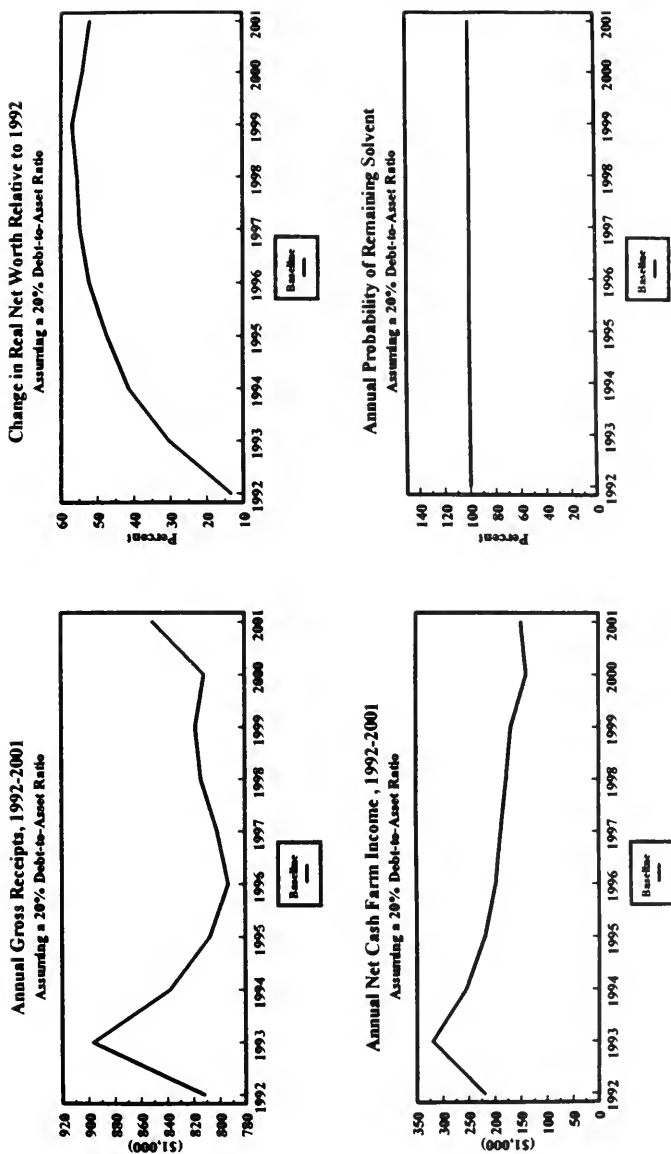


Figure 6. NEBRASKA MODERATE GRAIN FARM (NEG800)

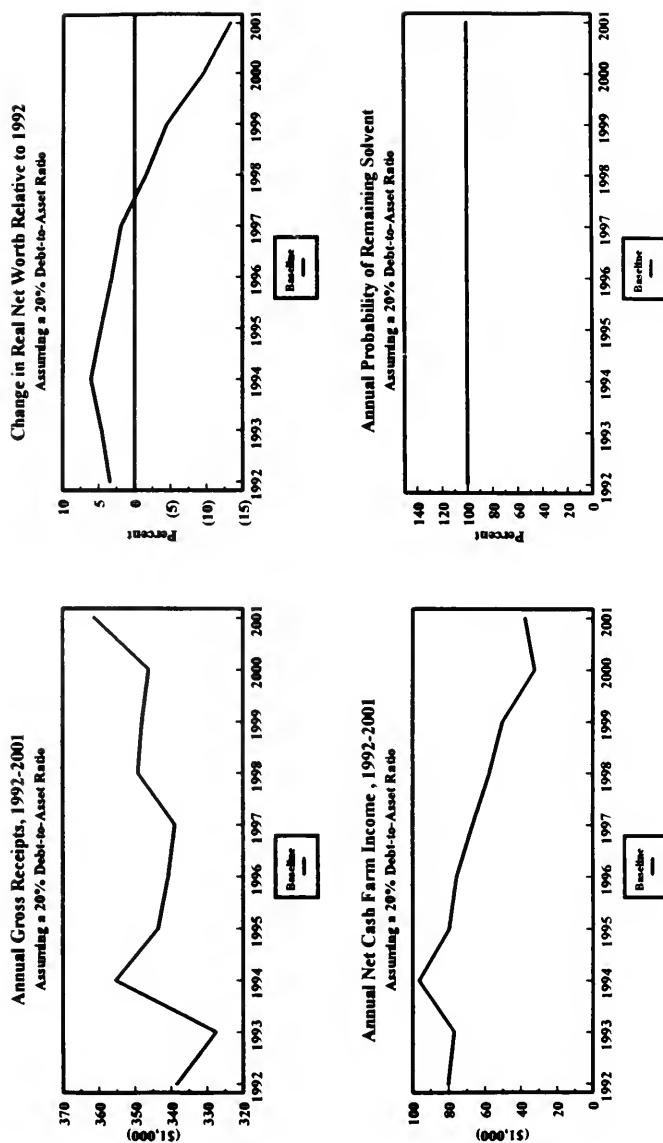


Figure 7. NEBRASKA LARGE GRAIN FARM (NEG1575)

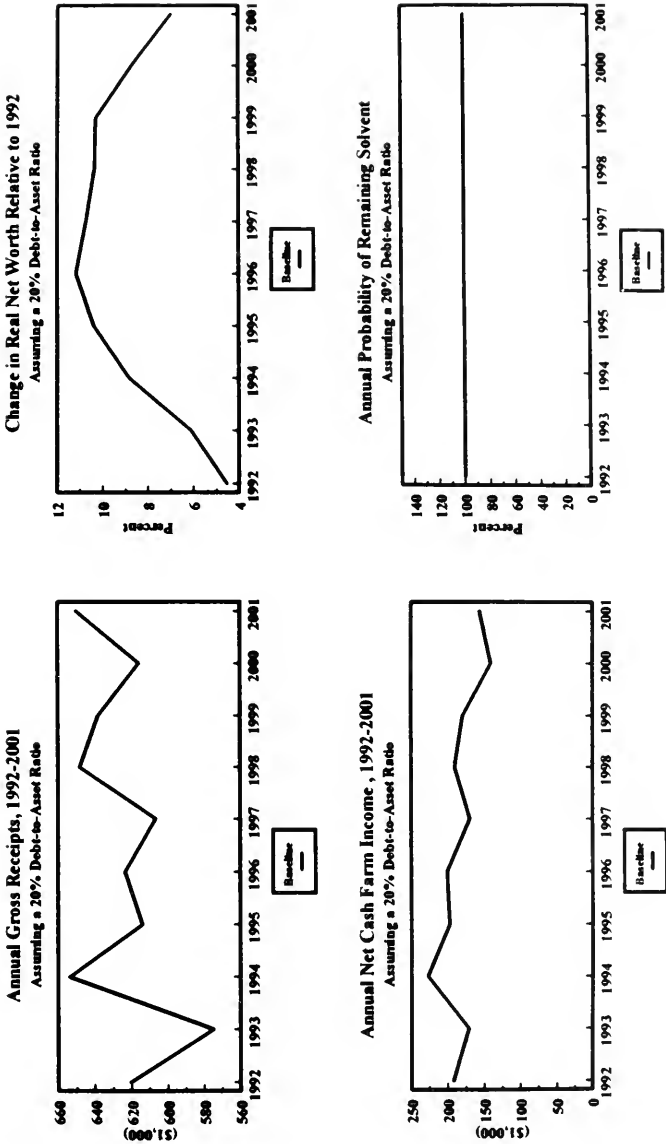


Figure 8. KANSAS MODERATE WHEAT FARM (KSW1180)

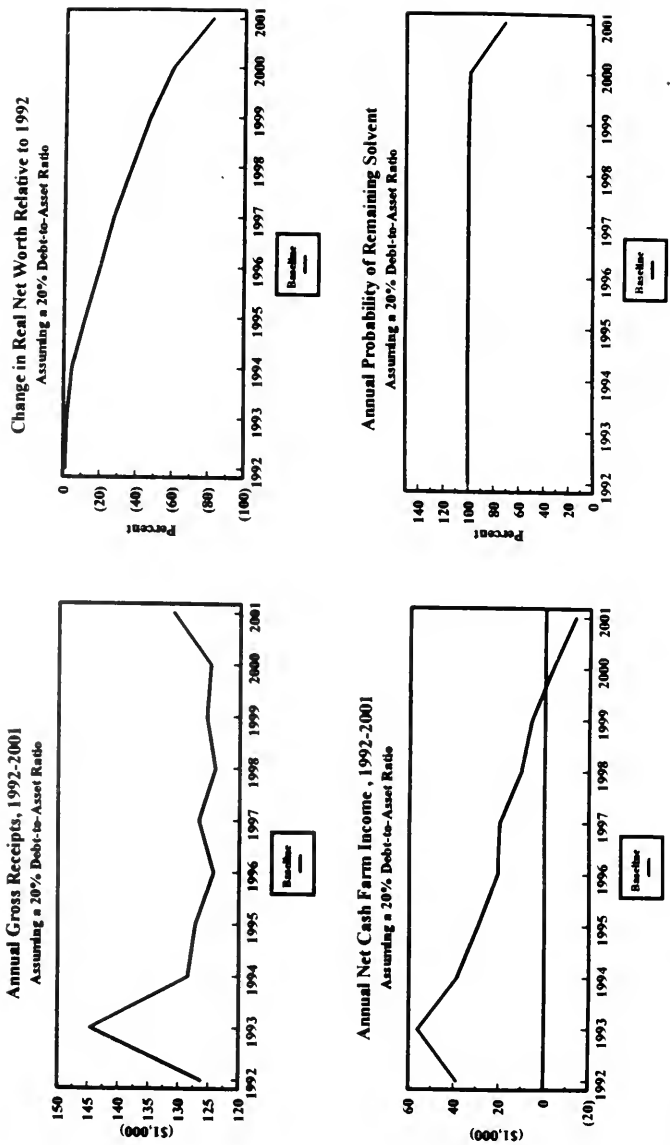
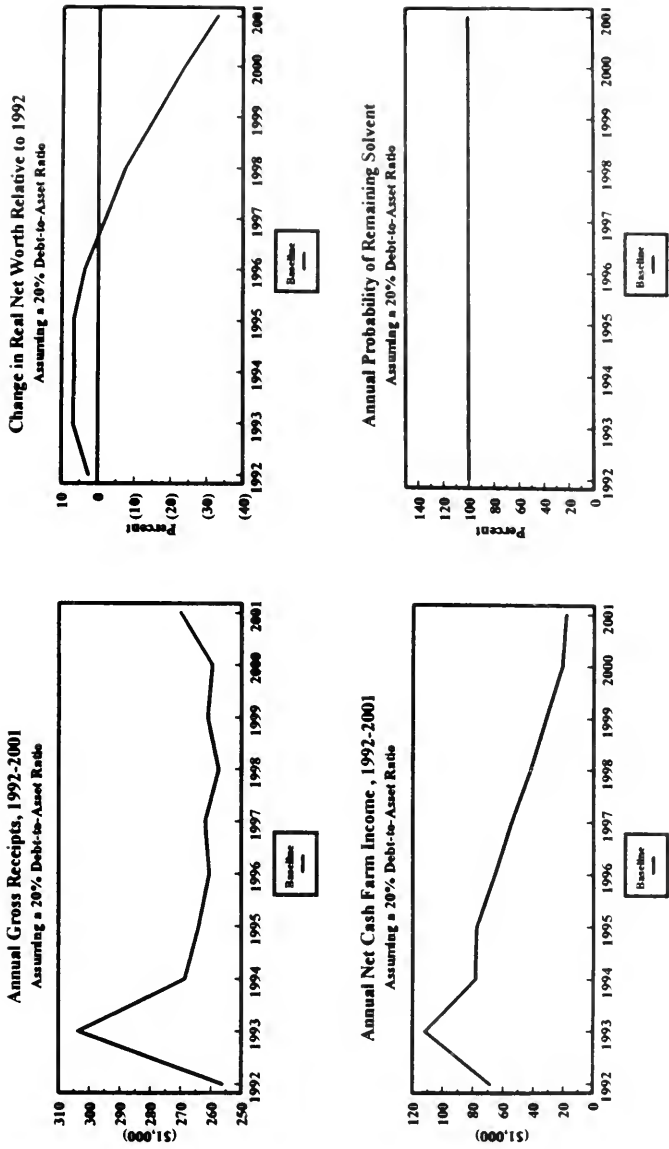


Figure 9. KANSAS LARGE WHEAT FARM (KSW2800)



**Figure 10. TEXAS SOUTHERN PLAINS MODERATE COTTON FARM
(TXSP1360)**

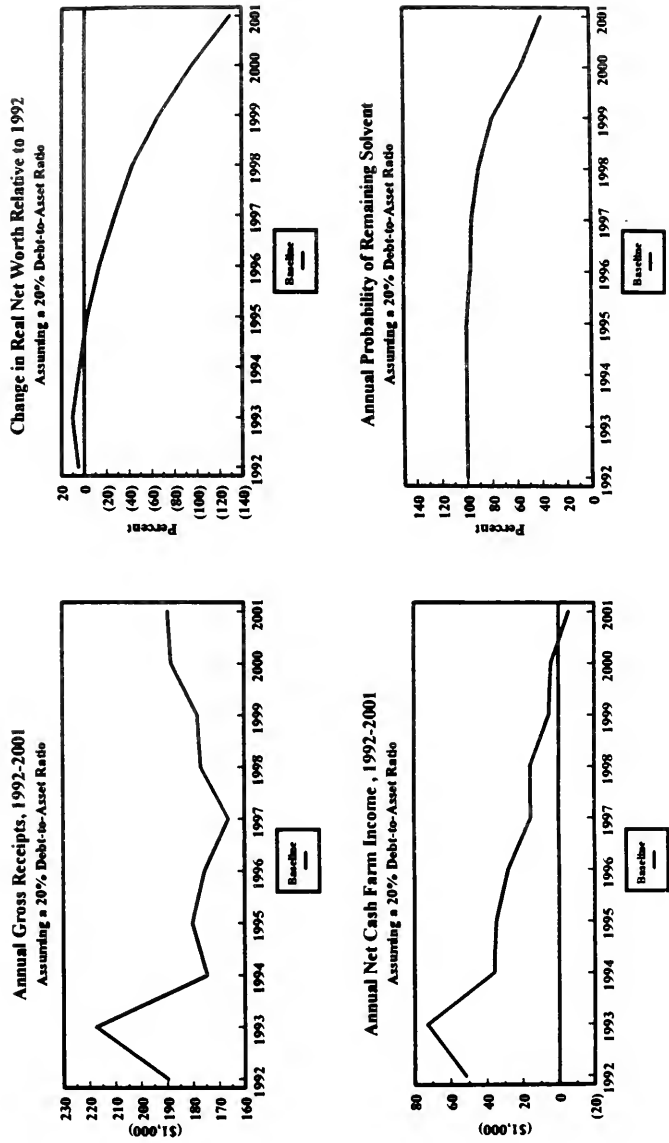


Figure 11. TEXAS SOUTHERN PLAINS LARGE COTTON FARM (TXSP3310)

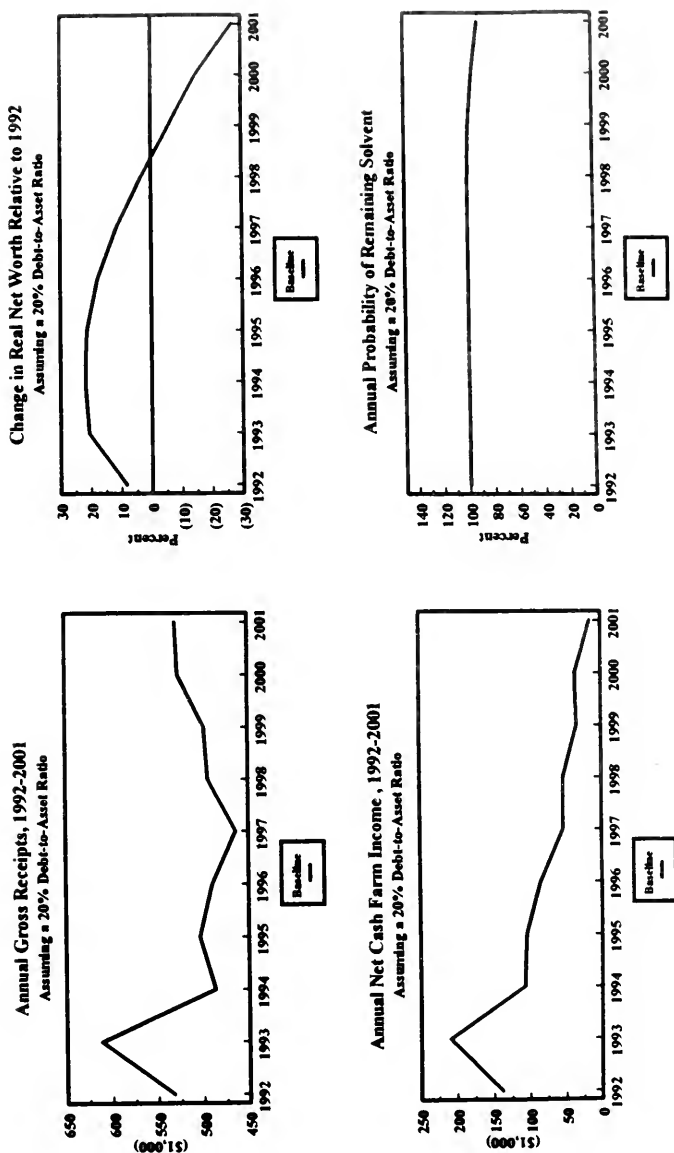


Figure 12. CALIFORNIA MODERATE COTTON FARM (CAC735)

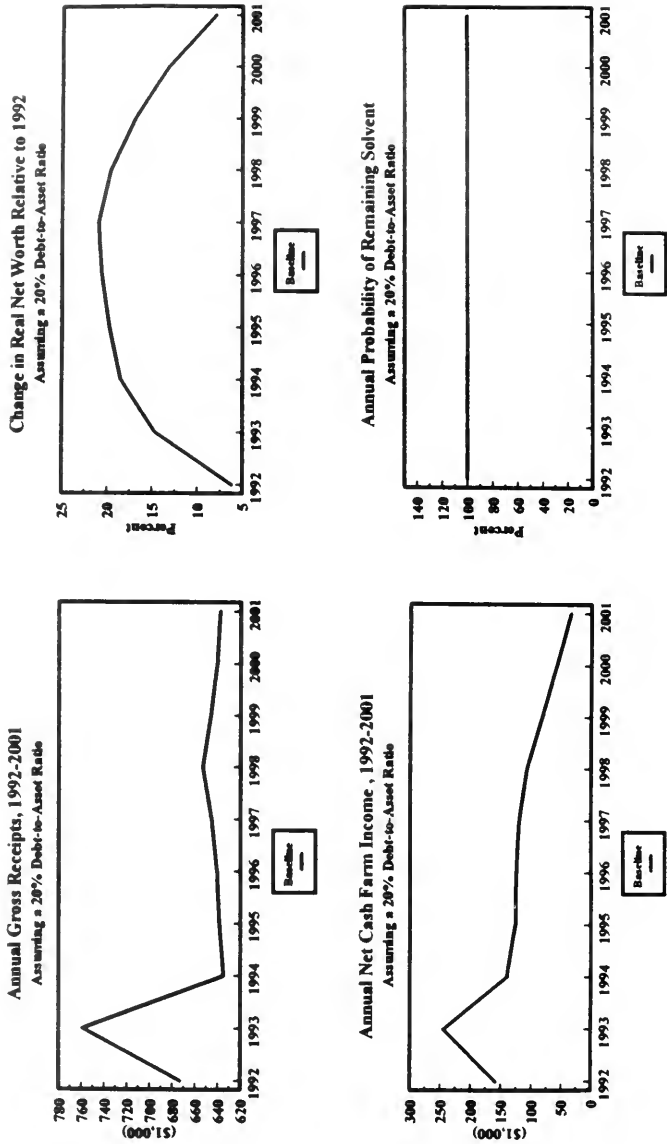


Figure 13. CALIFORNIA LARGE COTTON FARM (CAC3150)

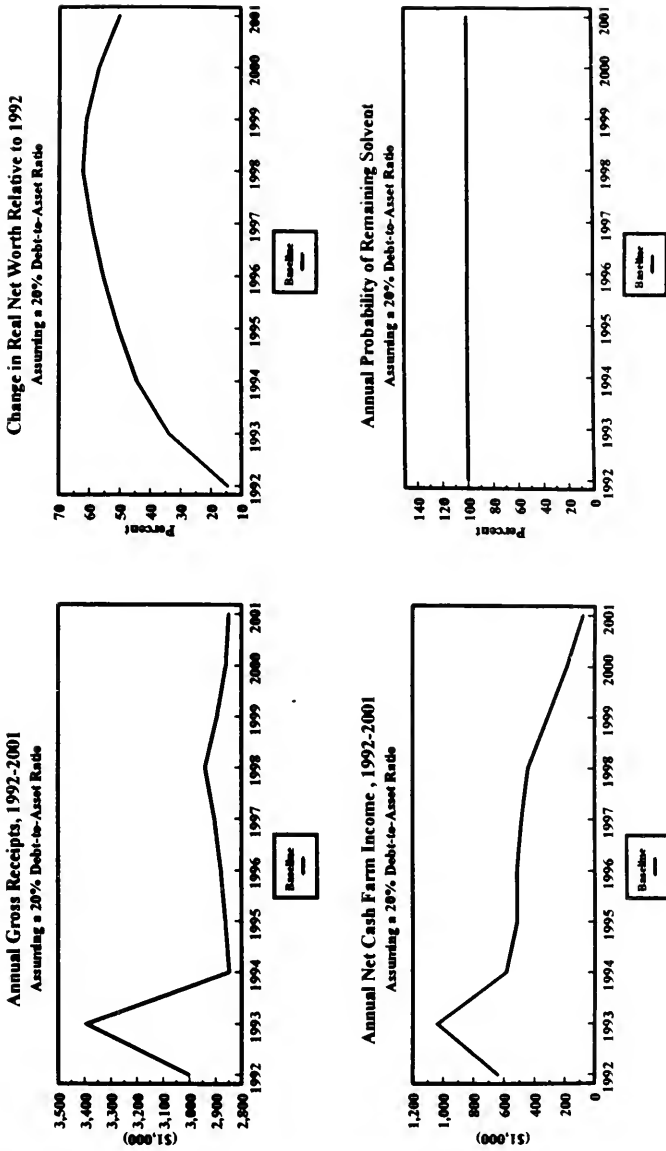
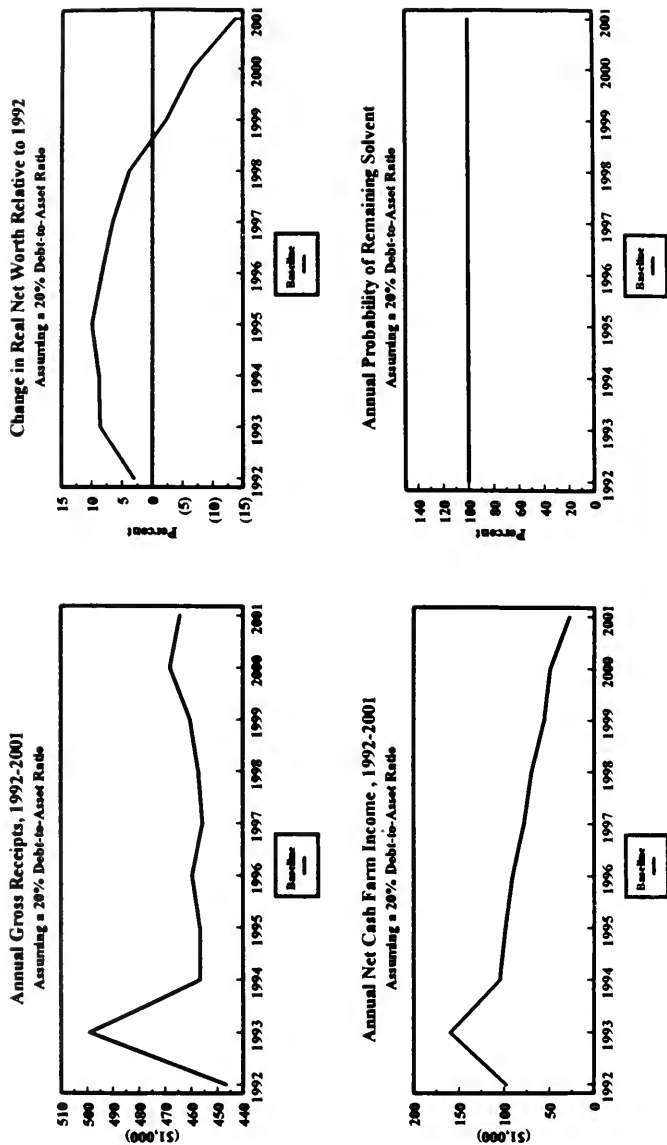


Figure 14. ARKANSAS MODERATE RICE FARM (ARR1260)



APPENDIX A **PANEL FARM COOPERATORS**

Iowa

Facilitators

Dr. William Edwards - Professor and Extension Economist, Iowa State University

Panel Participants

Mr. Phil Naeve	Mr. Dennis Ammen
Mr. Larry Lynch	Mr. John Ricke
Mr. Don Sandell	Mr. Britt Shelton
Mr. Bob Anderson	Mr. Virgil Gordon
Mr. Larry Lane	

Texas - Northern High Plains

Facilitators

Dr. Steve Amosson - Extension Economist - Management, Texas A&M University

Mr. Brad Johnson - Sunray Cooperative, Sunray, Texas

Panel Participants

Mr. Wesley Spurlock	Mr. Kenneth Keisling
Mr. Marion Garland	Mr. Ronnie Williams
Mr. Gary Keisling	Mr. Tom Moore
Mr. Charles Dooley	

Nebraska

Facilitators

Mr. Gary Hall - Phelps County Agricultural Extension Agent

Dr. Roger Selley - Extension Farm Management Specialist, University of Nebraska

Panel Participants

Mr. Frank Hadley	Mr. Tom Schwarz
Mr. Gary Robison	Mr. Scott Davis
Mr. Kerry Blythe	Mr. Johnny Nelson
Mr. Brian Johnson	Mr. Dave High
Mr. Charles Wohlgemuth	

Kansas*Facilitators*

Mr. Tim Stuckey - Extension Agricultural Economist, Kansas State University
 Mr. Gerald Le Valley - Sumner County Agricultural Extension Agent
 Dr. Fred Delano - Administrator of Farm Management Association Program,
 Kansas State University

Panel Participants

Mr. Paul Nye	Mr. Thomas Ostrander
Mr. Leroy Hoopes	Mr. Ronald Frazier
Mr. Jim Mathes	Mr. Nick Steffen
Mr. Lauren Ostrander	Mr. Donald Applegate
Mr. Harold Hainsworth	Mr. David Messenger
Mr. Rae Reuser	Mr. Don Casner

Texas - Southern High Plains*Facilitators*

Mr. John Farris - Dawson County Agricultural Extension Agent
 Dr. Jackie Smith - Extension Economist - Management, Texas A&M University

Panel Participants

Mr. Norris Barron	Mr. Nolan Vogler
Mr. Donald Vogler	Mr. Tom Anderson
Mr. Milton Schneider	Mr. Bradley Boyd
Mr. Kent Nix	Mr. Dave Nix

California*Facilitators*

Dr. Bruce A. Roberts - County Director/Farm Advisor - Kings County -
 University of California, Agricultural Extension
 Dr. Ron Vargas - County Director/Agronomic Crops (Cotton) - Madera County -
 University of California, Agricultural Extension

Panel Participants

Mr. Jerry Davis	Mr. Hubert Holterman
Mr. Larry Starrh	Mr. Fred Starrh
Mr. Jim Crettol	Mr. Jim Nickel
Mr. Wayne Waldrip	Mr. Richard Young
Mr. Ken Kirschenman	Mr. Roger Frantz

Arkansas*Facilitators*

Dr. Bob Coats - Extension Specialist - Management, University of Arkansas

Panel Participants

Mr. Joe Rennicke	Mr. Jerry Don Clark
Mr. Roger Pohlner	Mr. Gary Sitzner

Testimony of
Pete Wenstrand, President
National Corn Growers Association

to the Subcommittee on General Farm Commodities
Committee on Agriculture
U.S. House of Representatives

July 14, 1994

Mr. Chairman, thank you for the invitation to present the views of the National Corn Growers Association (NCGA) regarding the economic outlook of the U.S. agriculture sector. I am Pete Wenstrand, President of NCGA and a producer from Essex, Iowa.

Most farmers in the Midwest are encouraged by the prospect of good crops this year after a devastating 1993 that was marred by low yields, poor quality and, in many instances, total crop loss from flooding. We have every reason to expect normal corn yields and an increase in returns from crop production.

The larger crop will require enhanced efforts to utilize corn for both domestic and export markets. One such initiative is the Environmental Protection Agency's Clean Air rule that will require 30 percent of the oxygenate in reformulated gasoline be derived from renewable sources. With this rule, ethanol produced from corn will provide an important source of renewable oxygenate to help reduce urban smog. The increased demand for corn as a direct result of this rule will provide a much needed stimulus for corn prices. I want to take this opportunity to thank those members of this subcommittee who have been strong advocates of the use of ethanol.

Corn demand for food and industrial uses has steadily increased over the past two decades. We expect this demand to continue to grow as researchers develop new products that rely on renewable energy sources rather than fossil fuels. Federal funding for such research is critical to realize the full potential of industrial applications of agricultural products.

Domestic feed demand remains the most important market for U.S. corn. The greatest opportunity for increased demand for corn as livestock feed should be enhanced world

trade in meat and meat products. Countries experiencing strong economic growth should generate new demand for meat.

The United States is the largest producer of corn in the world, but this world predominance does not assure profitability for U.S. producers. We must compete in foreign and domestic markets with other grains that can be readily substituted for corn in livestock rations. European Union export policies have the effect of cheapening the value of wheat which has displaced corn in several important markets. Meaningful reform of predatory export policies is essential to the long-term profitability of corn production.

The General Agreement on Tariffs and Trade represents the first step in reducing export subsidies, but to maintain a competitive export position the United States should redirect savings to GATT-authorized export promotion. NCGA strongly supports the bill introduced by Congresswoman Long and cosponsored by other members of this subcommittee that will help keep American agriculture competitive under GATT. The bill will require USDA to aggressively use export enhancement programs to the extent allowed under GATT and to use funds that otherwise would have been used for export enhancement to be redirected to other export promotion programs. Strong, consistent demand for exports of bulk commodities and value-added products will greatly enhance farm income.

Federal policy should eliminate impediments to sound agricultural practices, such as crop rotations, and should encourage farmers to conserve our natural resource base through research, education, and voluntary, incentive-based environmental and conservation programs. The Conservation Reserve Program (CRP), the Water Quality Incentive Program and Integrated Farm Management Program are examples of programs that can achieve these multiple objectives. Unfortunately, all of these programs have been constrained by tight budgets.

NCGA supports a CRP that targets the most sensitive areas for eligibility with increased emphasis on water quality and tree planting. Expiring contracts that will be extended should be subject to competitive bidding. Alternative uses, such as haying and grazing, should be encouraged on land that will not remain in the CRP. Since these issues will not be resolved before the first contracts expire, NCGA has requested one-year extensions of CRP contracts expiring in 1995.

Farmers and policy makers must consider a wide range of public policies that directly impact producer profitability. I believe it is important to note at this time that another upcoming legislative activity -- the reauthorization of the Clean Water Act -- has the potential to affect corn farmers'

incomes every bit as much as the next farm bill. As such, I would urge all members of the subcommittee to support the referral of clean water legislation to the Agriculture Committee once it has been approved by the Public Works and Transportation Committee.

Most producers need adequate crop insurance to offer protection from the capricious nature of weather and to enable them to manage financial risk. The pending reform of the federal crop insurance program should afford all producers a minimum level of protection when faced with catastrophic losses and should also make higher levels of coverage more affordable for producers who need more protection. We support crop insurance reform as a key component of a comprehensive farm program.

As we look to the 1995 farm bill, we find that the existing farm program has not afforded producers any increase in support to offset the higher costs of production. Program yields have been frozen since 1985, and producers have not been permitted to increase their base acres without leaving the program for one or more crop years. The frozen yields and bases ignore the reality of changes in tillage practices and production techniques and the high priority on flexibility to achieve environmental goals.

During the debate on the 1990 farm bill, NCGA urged adoption of a concept we called "Freedom Flexibility". Our proposal would have combined program crop base acres and historic oilseed and alfalfa acres to create a Freedom Acreage Base. Producers would have been permitted to shift up to 25% of the combined acreage to any of the eligible crops. This would enable producers with limited program base to produce the program crop on a percentage of the acreage that had been devoted to an eligible nonprogram crop. Unlike the budget-driven flexibility included in the 1990 budget act, Freedom Flexibility would have provided meaningful two-way flexibility for producers.

Flexibility that will allow producers to shift the use of productive resources in response to market, environmental and conservation considerations remains an important goal for the National Corn Growers Association. While we have not endorsed any specific approach, NCGA is evaluating how a normal crop acreage program would impact corn farmers. We have discussed a concept that would include all program crop bases, historic oilseed bases and historic alfalfa and forage crops to determine the normal crop acreage. Producers would be permitted to plant the appropriate combination of these crops given market expectations and agronomic and environmental considerations.

Participating producers would have to comply with all

relevant conservation provisions and may be subject to an acreage reduction requirement based on actual plantings of program crops. A producer's acreage reduction requirement could be modified to provide greater flexibility through targeted option payments that would adjust the ARP requirement in return for a higher or lower deficiency payment rate. An increased acreage limitation option could be used to encourage producers to develop multi-year setasides. Similarly, producers could elect to accept a reduced deficiency payments in return for the opportunity to lower or eliminate their acreage reduction requirement. In this way, setaside policies could help assure that land is utilized in the most productive, effective and profitable manner.

Deficiency payments would be based on existing program crop payment acres and program yields. Producers would not be required to plant a minimum amount of the program crop to qualify for the deficiency payment. Neither would the producer be disqualified for planting more than the base acres to the program crop, unless total plantings of all eligible crops exceed the normal crop acreage on the farm.

For commodities with loan programs, all actual production would be eligible to be placed under loan. Existing marketing loans would be continued with the marketing loans for wheat and feed grains set at no less than 85% of the five-year average price, excluding the high and low years.

This is a basic outline of how a normal crop acreage program could operate. I must stress that NCGA has not endorsed the normal crop acreage concept. We intend to carefully evaluate the impact on corn farmers before advocating such a change in farm programs. Our farm bill discussions have also included revenue assurance, green payments, and replacing deficiency payments with marketing loans at 100 percent of the five-year average price. These proposals also deserve careful consideration.

The limited flexibility of the current program does not allow farmers to respond to the multitude of changes in farming that have taken place over the last decade. The 1995 farm bill should be designed to give producers the freedom to manage their farms in the manner that will best achieve the goals of profitability and environmental responsibility. We realize that this subcommittee will have to craft a farm bill that complies with the budget, but we welcome the opportunity to work with you to devise farm program that works for farmers within those constraints.

Thank you for holding this hearing and for considering the concerns of the National Corn Growers Association.

Testimony of

**Larry Mitchell, Director of Government Relations, National Farmers Union
Economic Outlook for the U.S. Agriculture Sector
Subcommittee on General Farm Commodities, Committee on Agriculture
U.S. House of Representatives
July 14, 1994**

Thank you, Mr. Chairman and members of this committee. I am Larry Mitchell, director of government relations for National Farmers Union (NFU). I bring greetings to you, Chairman Sarpalius, from our national president, Leland Swenson, as well as from Joe Rankin, president of the Texas Farmers Union. We appreciate that you are holding this hearing to listen to our assessment of the economic outlook for the U.S. agriculture sector.

Overview

If there has been any bright spot in the agricultural economy over the past six months, it was the decision of Secretary Espy to raise CCC loan rates. NFU commends the secretary's initiative and urges further increases in support levels for all commodities. In addition, we commend Secretary Espy's decision to proceed with the advanced purchase of dairy and beef products for the school lunch program as requested by several members of Congress as well as NFU.

The economic outlook for U. S. agriculture today is very unstable, and our markets are extremely volatile. For years, the livestock sector has kept agriculture as a whole "in the aggregate," as they say, on a slightly positive footing. But for the first time in many years, cattle prices have taken a serious downturn, and it looks as if the low prices will be with us for quite a while.

Wheat and feed grain producers have realized a goal for which we have strived for two decades: a lowering of stocks to a level which should prevent them from depressing prices. Ever since the mid-1970s, we have attempted to align supply with demand through reduced plantings, expanded exports and greater domestic utilization. But with stocks at record lows, the promise of a fair price has not materialized. The cash price for wheat in Kansas during this year's harvest fell below the \$3-per-bushel level.

Dairy producers are experiencing the worst downturn in prices since 1991, with some producers on the west coast reporting milk prices below \$10 per hundredweight.

The economic volatility in agriculture has been further destabilized by the very mechanisms which were founded to decrease volatility. Since mid-spring, if a rain shower or a hot dry day occurs on LaSalle Street in Chicago, the futures markets have reacted with price movements at or close to the limits allowed. This volatility is intensified through the entire marketing structure, especially the cash, farm-gate market. I have responded to phone calls

from producers told by their local elevator there was no market for their soybeans at any price until the market stabilized. This is an example of a futures market established under the pretense of offering price stability and flexibility to producers but accomplishing the exact opposite effect-- more volatility and no flexibility.

Budget Constraints

The United States has had excellent farm programs in the past without spending the large sums of money required by today's programs. Those old programs were abandoned. Now there should be no question that the federal budget will be the most important factor in drafting the 1995 farm bill. In fact, if the budget was not the key factor in the Food, Agriculture, Conservation and Trade (FACT) Act of 1990, the omnibus Budget Reconciliation Act of 1990 caused it to be so in the final outcome. Farmers, ranchers and their representatives here in Washington have learned the hard way that we must pay as much or more attention to the budget and appropriation committees as we do to the agriculture committees. We have learned that Uncle Sam giveth in the farm bill and taketh away in the budget. I have never understood why, unless it is an alphabetical thing, agriculture seems to take the first and deepest cuts from the budget ax. Chairman de la Garza is famous for his chart comparing the agriculture budget the entire federal budget.

Budget constraints have taken their toll on production agriculture. Budget constraints have brought on payment limits, definition of persons, triple base, frozen yields, reductions in disaster payments and even assessments--better known as taxes--on producers of commodities in no-net-cost programs.

Since next year's budget is almost completed, and next year brings us the farm bill, I will save suggestions for dealing with budget constraints until later in this testimony when I deal with the farm bill.

Current and Pending Trade Agreements

The National Farmers Union recognizes that international trade agreements, when properly crafted, can be useful vehicles to lessen world trade tensions, increase development opportunities and economic growth rates, and increase trade in goods and services for the betterment of humankind as a whole. The converse side, however, is that poorly crafted international trade agreements can heighten trade tensions, do serious damage to economies already in place, and lower living standards of people living in the countries involved.

The economic outlook for the agriculture sector will be greatly influenced by trade agreements. The Canadian Free Trade Agreement (CFTA), the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) all include substantial agriculture provisions.

The fruits of the CFTA are just now ripening. Last week, the U.S. International Trade Commission (USITC) found wheat imports from Canada interfere in the cost and operation of the U.S. wheat program. Our wheat producers in the northern tier states can attest the flood of imports from Canada interferes with their pocketbooks. Imports of wheat from Canada have increased dramatically since the approval of the CFTA. In 1988, the U.S. imported 434,020 metric tons of Canadian wheat. In 1992, the level rose to 1,454,400 metric tons, an increase of 235 percent. The increase in imports continued to accelerate in 1993, and by this year reached a level completely overloading the capacity of handling, storage and transporting systems in many areas along the U.S.-Canadian border. Some U.S. producers were unable to make delivery on contracts of 1993 wheat as a result of the flood of Canadian wheat into their terminals.

We are asking President Clinton to use his authority under Section 22 to immediately impose sanctions on Canadian wheat imports. The problem with Section 22 is it will no longer be allowed under the Uruguay Round of GATT if it is ratified by Congress. How then will we be able to correct the inequities of unfair trade? Article 28 would offer some remedy but requires offsetting concessions and congressional approval. Will the 54 members of the California congressional delegation agree to concessions for wine exports to Canada in exchange for restrictions on Canadian wheat imports requested by the three members of the North Dakota congressional delegation?

The Canadian wheat problem is but one of many problems experienced by farmers and ranchers on both sides of the border. When the CFTA was approved by Congress, it promised to do a great deal for U.S. agriculture. Yet, what has the CFTA done for agriculture to date? Are we better or worse off? Ask durum wheat farmers in North Dakota, hog producers in Iowa, cattle ranchers in Colorado or dairy producers in Michigan.

NAFTA proponents last fall made promises similar to those of the CFTA proponents. NAFTA took effect January 1 this year. An example of what we may expect from NAFTA can be seen in the fed cattle market. A May news article in The Denver Post reported cattle "producers" immediately profited from the implementation of NAFTA by the removal of a 20-percent Mexican tariff on imported beef.

The article also reported that Monfort International, a meat packer based in Greeley, Colo., now ships weekly to Mexico, 45 loads of beef, each weighing 42,000 pounds, up from 25 loads per week before the implementation of NAFTA. If indeed a reduction in tariffs occurred, why have prices plunged? A producer in South Dakota reported that fed cattle prices at her market dropped from \$86 per hundredweight in March 1993, to \$64 in May 1994, and there are recent reports of market prices as low as \$62 per hundredweight. I would like to know what, if any, portion of the 20-percent cut in tariff coupled with the 25-percent lower price paid to U.S. beef producers was transferred to the Mexican consumer. I would also like to know if this is what U.S. farmers can expect from NAFTA. Will we simply produce more for less?

NFU's position on The Uruguay Round can best be summed up in the first paragraph of a special order of business adopted by our convention delegates last March in Fargo, N.D., which states, "We, the delegates of the 92nd Annual National Farmers Union Convention, dedicate ourselves and our organization to defeat the proposed Uruguay Round of the GATT. We believe the proposed GATT is fundamentally flawed and must be rejected."

The biggest problems facing U.S. farmers in the agreement are:

- ◆ 1. complete elimination of import control laws, such as Section 22 and the Meat Import Act;
- ◆ 2. mandated minimum import access of 5 percent of domestic consumption for every food;
- ◆ 3. mandated reduction in some domestic farm programs;
- ◆ 4. weakened domestic food safety laws because of the imposition of ceilings on food safety regulations, also known as harmonization, is a threat to consumer safety and confidence in the food supply. Lower consumption of some products, whether they are imported or domestically grown, could result; and
- ◆ 5. reductions in federal revenues due to reduction and removal of existing U.S. import tariffs may result in federal program cuts, including agriculture programs.

The last is the most pertinent to our previous discussion of budget constraints. Mandated cuts in farm program spending because of GATT are completely contrary to the administration's repeated assurances to agriculture throughout the negotiations. National Farmers Union, along with over 20 other farmer and commodity organizations, last spring reminded President Clinton of this fact in a letter with signatories from a full spectrum of the agriculture community from the very politically conservative to the politically progressive. We affirmed our unity in our closing remark, "We would find it very difficult to support any proposed implementing legislation which resulted in a disproportionate share of the cost of GATT being placed on U.S. agriculture."

Secretary Espy announced recently that under the new agreement, agriculture outlays are expected to fall \$1.7 billion over FY 1995-99. Reductions in export subsidies will contribute an estimated \$1 billion, while decreased deficiency payments and other CCC outlays from higher exports will total an additional \$700 million. Based on these assumptions, the administration has announced it will not seek additional farm program cuts to help pay for the GATT implementation. We hope this is a promise we can depend on. We also support legislation to retain any budget savings, which would occur because of GATT, within the agriculture budget, as long as all are used for programs directly assisting production

agriculture. We cannot support legislation which protects exporters at the expense of producers. It would indeed be unfortunate to pass legislation which would protect green box export programs while, at another juncture, GATT implementation would require additional cuts, such as increased unpaid triple base acres, in production agriculture programs. When required to make a choice between farmers and exporters, NFU will choose farmers every time.

What else may the U.S. agriculture sector expect from GATT? Last month, several economic analyses of the implications of the Uruguay Round of GATT on agriculture were released to the public. One of these studies was done at the Agricultural and Food Policy Center of Texas A&M University. The study, "The Impacts of GATT on Representative Farms in Major Producing Areas of the United States," projected changes in baseline for farm prices, net cash farm income and ending net worth.

Please allow me to explain a few of the findings of the Texas A&M study. On a seemingly positive note, the report projected higher prices for corn and wheat farmers--a 2.9-percent increase in the price of a bushel of corn and a 3.4-percent increase in the price of a bushel of wheat by the year 2001. What the study did not reflect was federal budget cuts, whether to balance the budget or possibly mandated to pay for the implementing legislation for GATT ratification, will more than likely erode those minuscule price increases. The net result will mean lower farm income for corn and wheat farmers.

The projections for producers of cotton, rice, and milk were not that good. Today I request of my fellow Texans on this committee that you consider whether, in good conscience, you can vote to ratify a trade agreement which, according to economic research done by our own land grant college, will reduce the annual net cash farm income of moderate-sized cotton farmers on the Texas Southern High Plains by 9.4 percent.

According to the A&M study, out of 22 dairy farms in 10 states, reductions in net worth by the year 2001, were projected for 87 percent of the dairy farms studied, with only one shown with any real positive change. For example, moderate-sized dairy farms in Florida can expect to lose 18.2 percent in net worth by 2001 because of GATT. It was further explained in the oral briefing that economically stressed dairy farms in Texas would simply go bankrupt two years earlier as a result of GATT.

For those who may not rely on Texas A&M as much as some of us, let us look at some other economic research on GATT and the agriculture sector. In its study, "Implications of the Uruguay Round for U.S. Agriculture," the Food and Agriculture Policy Research Institute (FAPRI) projects wheat producers participating in the farm programs will experience .9 percent (nine-tenths of one percent) increase in net returns over baseline on average for 1995 to 1999. That same calculation for producers of corn is 1.5 percent; for sorghum, .9 percent; for barley, .5 percent; for oats, .7 percent; for cotton, 1.1 percent; and for milk, -.9 percent. For these minuscule increases, is it worth risking this nation's food safety, ability to feed

itself and its very sovereignty ? We do not think so.

The U.S. International Trade Commission (USITC) reports in its study, "Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements (URA), that "Because the URA will increase both export opportunities and the level of imports for most agriculture sectors, the overall net trade effects are likely to show negligible to modest gains at the sector level." The report also states, "Certain industries are likely to experience small or negligible negative production and employment effects, due to increased import competition as U.S. non-tariff measures are liberalized. These industries include the domestic peanut and vegetable oil industries and producers of certain processed fruits and vegetables...On a sector basis, trade and production of oilseed and wood products may decline negligibly due to the URA."

The National Farmers Union is convinced GATT will unjustly drive many more families out of farming. Our concerns also extend to the implications for rural communities as they continue to depopulate and to urban centers already overburdened with overpopulation, crime and pollution. The economic and social ramifications are much larger than if Old McDonald still had a farm.

The question not answered by the economic predictions is the one question the National Farmers Union poses to Congress before it considers voting for ratification of GATT: **What is the future for U.S. family farmers under the Uruguay Round agreement in light of these dismal economic projections?**

The National Farmers Union urges Congress to consider all of the questions raised here today before acting upon the implementing legislation to ratify the Uruguay Round agreement. In order to do so properly, we feel ratification must be postponed until next year.

The 1995 Farm Bill

The 1985 farm bill supporters argued that if we were dramatically to lower CCC loan rates on wheat and feed grains and to lower our acreage set-asides as well, the U.S. would regain lost markets, exports would go up dramatically, and the higher export volume and value would drive up domestic prices for wheat and feed grains, which in turn would increase net farm income and decrease the cost of farm programs.

It is critical to know and understand the relative position of production agriculture both before and after the 1985 farm bill as we consider the 1995 farm bill. Did the 1985 and the 1990 farm bills do what their supporters claimed they would do? Did the 1985 and the 1990 farm bills do what our nation would want to do in order to develop an economical and environmentally sustainable national farm policy that treats all sectors of the food economy fairly, including production agriculture? We must have answers to these questions before we fully consider extending the 1985 and 1990 farm bills.

The following statistics were taken primarily from USDA sources. We used the eight-year periods of 1977-1984 and 1986-1993 to show conditions before and after the 1985 farm bill, the year 1985 was omitted for clarity.

8-YEAR AVERAGE	1977-1984	1986-1993	PERCENT CHANGE
U.S. Corn Yields/acre	100.27	112.41	+12.0
U.S. Corn Production	7,067,579,000 bu.	7,380,463,000 bu.	+4.0
U.S. Corn Harvested	69,940,000 acres	65,287,000 acres	- 6.6
Value of U.S. Corn Crop	\$18,269,303,000	\$16,096,171,000.	-11.8
Volume of Corn Exports	2.058 billion bu.	1.736 billion bu.	-15.6
Value of Corn Exports	\$4.712 billion	\$3.819 billion	-18.9
Price for U.S. Corn	\$2.29/bu.	\$2.20/bu.	-3.9
Ending Stocks of Corn	1.558 billion bu.	2.244 billion bu.	+44.0
Cost of Farm Programs	\$7.213 billion	\$14.19 billion	+96.7
Parity Ratio 1910-14(adjusted)	64 percent	56.1 percent	-12.3 (8 points)

John Hansen, our Nebraska Farmers Union president, tells of his Great-Uncle Gus, who dug graves by hand for over 40 years. Uncle Gus had three simple rules for digging graves. Rule Number One was to make real sure you were digging the hole where the hole ought to be dug. Rule Number Two was to keep your spade sharp and clean. Rule Number Three was if you were digging the hole in the wrong place, the first and best thing to do was to stop digging. I submit the approach of the 1985 and 1990 farm bills has been digging too deeply in the wrong direction.

NFU's strategies for the 1995 farm bill deal with budget constraint concerns, producer income requirements, trade agreement compliance and stock carryover levels essential in the event of natural disasters.

First, we urge passage of legislation designed to utilize what scarce budget dollars available to protect the income of family farms through directing of farm program benefits. As federal budgetary constraints reduce the funding available for agricultural programs, and as the current farm law and trade policy directions lessen this nation's ability to effectively manage the agricultural supply-demand and pricing situation on behalf of its producers, future farm policy options seem limited to a choice between continued decoupling and that of directing farm program benefits to family farmers.

NFU chooses directing farm program benefits over decoupling. Characteristically, a family farm is owned and operated by a farm family, with the family providing most of the labor needed for the farming operation, assuming the economic risk, making most of the

management decisions, and depending primarily on farming for a living. The primary objectives of the 1995 farm bill must be to achieve an increase of family-sized farmers and to enhance producer income, so that farmers may continue to provide a reliable supply of food and fiber and serve as stewards of our nation's land and water resources. Targeting farm program benefits to the production levels of family farm operators would reduce government costs while furthering the sustainability of our family farms, our rural communities and our natural resources.

Provisions directing benefits should include:

- ◆ 1. limits on the volume of production for which any one person can receive deficiency payments and/or commodity loans and prohibitions on the artificial subdivision of farms to avoid such limits;
- ◆ 2. protection of the initial units of family farm production from budget cuts under the terms of any farm or budget bill; and
- ◆ 3. implementation of a paid diversion to offset any loss of large farm participation in the set-aside program.

Decoupling, with its across-the-board cuts, places the burden of agricultural budget reductions on the backs of small- and mid-sized farm operators, while at the same time allowing the largest farm operations in the nation to continue to receive their full entitlements. To add insult to injury, the expansion of payment limitation eligibility has been facilitated for these same large operations. Decoupling so far has provided further artificial competitive advantages to the largest farms, while collapsing the very safety net that was originally established for family farmers. The failure of the current farm programs to protect family farmers is evidenced by the loss of hundreds of thousands of family farmers during the past decade.

NFU is adamantly opposed to continued decoupling, and we believe directing benefits is the most viable public policy alternative available today to respond to the crisis facing family farm agriculture. Farm policy must establish goals on a basis that provides cost-of-production returns and a reasonable livelihood from the basic output of a family farm. Directing farm program benefits to family farmers must take precedence over other farm program objectives. Tiered marketing quotas, set-asides and price supports, together with realistic, overall, per-program and-volume-(bushel)-based commodity loan and deficiency payment limitations are effective targeting tools.

The advantages of NFU's strategy to direct benefits and raise CCC loan rates are:

- ◆ 1. increased farm prices and increased farm income;

- ♦ 2. additional low cost financing for farmers;
- ♦ 3. a reduced downside price risk to farmers;
- ♦ 4. encouragement of grain storage, possibly reducing upside price risk to consumers, livestock producers and exporters; and
- ♦ 5. higher loan rates which would reduce CCC outlays if repayments of loans and interest paid by producers were properly credited in the budget scoring process.

I hope I covered the requested subjects of today's hearing. I am prepared to answer any questions to the best of my ability. National Farmers Union stands ready to help this committee in drafting a 1995 farm bill which protects the consumers, the environment, the taxpayers and the family farmers of this nation. We commend this committee for its foresight in having this hearing here today.

Thank you.



America Needs Parity!

American Agriculture Movement, Inc.

100 Maryland Ave., N.E., Suite 500A, Box 69, Washington, D.C. 20002
(202) 544-5750

July 11, 1994

Chairman Sarpalius, members of the committee, on behalf of the members of the American Agriculture Movement, I wish to thank you for this opportunity to appear before you.

My name is Tom Asbridge and I am the Executive Director of the American Agriculture Movement. I am a rancher from southwest North Dakota by profession.

I will endeavor to give you a thumbnail sketch of rural America, as I am seeing it. In the past three weeks I have been from Mississippi Delta to the grasslands of the western Dakotas and eastern Montana. I have received reports from our members from across America. The economic reality in rural America is a far cry from what we read about. From time to time, maybe Congress needs a reality check. There is life beyond the beltway.

In the past few weeks, the cattle market has been devastated. Losses in the feeding industry run from \$100 to \$300 per head. This will translate into a dramatic price drop for feeder cattle this fall. North Dakota State University livestock marketing economist, Harlan Hughes, has projected a 23% net income per cow reduction for this fall, followed by another 22% decline in 1995 and still another 11% drop in 1996. The 1995 net income projection is 47% under 1993's.

The price for hard red spring wheat in southwest North Dakota today is from \$1.00 to \$2.00 per bushel less than prices received during last year's harvest. Winter wheat price at \$3.00 per bushel and less, coupled with areas of drought and hail problems in Texas, Oklahoma, and Kansas are placing a significant number of those producers in financial stress. Corn and soybean prices are weak but the prospects for a large crop will tend to support gross income in these regions.

Now let's give a glance to the year past. According to USDA

Strength From The Land

statistics, the 1993 corn crop lost \$17.85 per acre after \$1.4 billion in subsidies were paid. The 1993 wheat crop net income per acre was \$8.85 after nearly \$2 billion in subsidies were paid. Cotton netted only \$5.85 per acre after over 1.5 billion in subsidies were paid. The 1993 wheat prices were so low that without the subsidies the loss was \$21.67 per acre and cotton lost an all-time high of \$115.49 per acre.

When one travels to rural America the effects of the losses can be seen everywhere. Vacant buildings and rusting machinery are obvious. It is unquestionable that rural America is in a serious state of decline. The aging of rural America is a consequence of our agricultural policy. Current pop-economic theory would have us believe that NAFTA, GATT and any other mechanism to increase exports will yield the prosperity we so desperately need. Careful analysis of this premise will yield the following: If we exported all the production of food, feed grains, and fiber produced in the U.S. from 1984-1990, leaving nothing for Americans to eat or and feed for the nation's livestock-- we would be \$388.5 billion short of balancing the trade deficit.

The data available demonstrates that taxpayer subsidies deteriorate prices at the farm gate thus destroying earned net income and reducing the food and fiber producers of this country to the position of welfare recipients dependent on the federal dole, and today, an ever shrinking dole. The record also proves that using cheap farm exports to offset the trade imbalance is impossible. Mathematics clearly prove that exporting our way to prosperity when every acre grown generates a net loss to our economy is economic folly.

We as producers have been forced to produce more and more volume each year in a futile attempt to offset falling prices. We ask you in Congress to consider this-- federal policy to keep production up and prices low has been so successful that the U.S. enjoys the lowest priced food in the industrial world- prices so cheap that 26 million Americans need food stamps to consume it.

At the recently held Great Plains symposium on world Agricultural Trade, the keynote speaker suggested that 60 years of centrally planned agriculture hasn't worked and we should have the courage to consider "releasing" our own farmers from this burden.

I submit to you that the policies have worked. They have provided huge volumes of raw material at the expense of the producers and ultimately the taxpayer and consumer. The policy has yielded the appearance of cheap food for the political establishment to use as a reelection tool, at the expense of rural America- the sector now almost void of voting power.

America has come to view farmers as chronic complainers on a never-ending quest for more subsidy. And in part, we have come to Washington for decades with our hats in hand. Those have been the parameters allowed us by the political system. We have had a fair price exchanged for a welfare check. The result has been earned income replaced by debt while we pursue prosperity within the illusion of increased production. Rural America's prosperity is of National importance no less than is profitability for our domestic oil industry, steel industry, and textile industry. We don't need farm policy to preserve a nostalgic vision of days gone by. We need to be a part of a sound National economic policy that rewards producers thereby generating profit. That profit will spur growth. Profit will pay the way for an expansion of the service sector of our economy. Profit will restore purchasing power to the consumer enabling them to consume what we produce.

The choices are clear. Continue on the present course- and increase the national debt to pay for the problems that flow from this policy- increasing poverty, rural and urban decay, social problems and a declining tax base- or we can choose to earn our way. Agriculture must be allowed to receive an adequate price. A price reflective of the American standard of living.

If Policy has caused these problems, then Policy can correct them. American producers, all of her producers, must be paid for their production. Business cannot operate without a profit. Agriculture cannot continue to be underpaid. Policy must provide the opportunity for earned income at the farm gate- not merely for farmers- but for the whole of the American economy.

We must embark on a new policy- one that builds on earnings not debt. A policy that strengthens the whole of America not merely a few.

We as producers don't need more- or less of the same. America cannot afford to destroy rural America and pretend that it's a natural

phenomenon in the information age. Someone must produce and someone must do the work. Public Policy needs to increase our standard of living and say no to those who say we can't. America won't prosper with cheap prices, or cheap labor. We won't fulfill our destiny in a welfare state.

If we are to participate in a global economy, than we must pursue a policy that raises the standard of living globally, rather than reducing our own to that of the rest of the world. Traded profits for the Nation must not be at the expense of our producers.

America needs you in Congress and the Administration to lead us.

We in the American Agriculture Movement stand ready to help.

A handwritten signature in black ink, appearing to read "Tom Asbridge". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Tom Asbridge
Executive Director
American Agriculture Movement

STATEMENT OF THE
AMERICAN FARM BUREAU FEDERATION
TO THE HOUSE AGRICULTURE SUBCOMMITTEE
ON GENERAL FARM COMMODITIES
REGARDING
THE ECONOMIC OUTLOOK OF U.S. AGRICULTURE
AND
GENERAL FARM PROGRAM PROVISIONS

Presented by
Bob Stallman, President
Texas Farm Bureau

July 14, 1994

The American Farm Bureau Federation (AFBF) appreciates the opportunity to present testimony on the economic outlook of U.S. agriculture and how various issues are likely to affect the general farm program provisions.

Improving net farm income, enhancing the economic opportunity for farmers and preserving property rights are our most important goals and should be the foundation on which all farm policy is built. We favor a market-oriented agriculture with supply and demand, rather than government action, ultimately determining production and price. Nevertheless, until world-wide market conditions are such that farmers can realistically expect to obtain a fair return for their production, federal farm programs must be designed which allow American farmers to be the backbone of a comprehensive public policy dealing with food security.

We believe U.S. policies affecting agriculture should be designed to:

- (1) Ensure that U.S. consumers have access to a stable, ample, safe and nutritious food supply;
- (2) Continue to improve the environment through expanded initiatives to encourage voluntary soil conservation, water and air quality programs, and advanced technological and biotechnological procedures;
- (3) Minimize world hunger and nutrition deficiencies;
- (4) Create a long-term, competitive and desirable agricultural growth industry;
- (5) Enhance U.S. agriculture's competitiveness in the world market;
- (6) Improve the quality of rural life and increase rural economic development; and
- (7) Promote actions which will permit new concepts to be introduced that will allow the market to give accurate economic signals.

While consideration of new concepts should include the possibility of combining present farm programs, federal crop insurance and disaster programs into a single, coordinated program, the general provisions of farm program policy must be structured to allow for a consistent, long-term market-oriented farm program that would:

- (1) Rely less on government and more on the market;
- (2) Allow farmers to take maximum advantage of market opportunities at home and abroad without government interference; and
- (3) Encourage production decisions based on market demand.

The general farm program provisions of the Food, Agriculture, Conservation and Trade Act of 1990 continue to move the United States toward a market-based, export-competitive agriculture, a direction established and begun by the Food Security Act of 1985. We support that general direction despite what we consider a disproportionate share of the deficit reduction burden imposed upon farm programs. We oppose modifications in farm policy that would change that direction away from the market-oriented goals of competitive loan rates, voluntary stock reduction programs and income supplements as farmers move toward a market-based agriculture.

While the floods of 1993 in the Midwest and the droughts in various parts of the country in recent years have highlighted some of the weaknesses inherent in current program provisions for stabilizing the income of individual producers, the adaptability of the program provisions to a wide range of unusual circumstances is a testimony to the robustness of the program as a whole. We supported, for example, the use of Secretarial discretion to extend the 0/92 programs to those affected by these unusual conditions and favor an enhanced and extended 0/92 type program for farms which have suffered flood-related damage that has rendered the land unillable.

There continue to be concerns about the federal budget deficit, with both Congress and the Administration focusing on ways to reduce government expenditures. Frozen program yields, unpaid flex acres, lower target prices and dairy program assessments have reduced federal program payments by nearly \$21 billion dollars since 1989. These cuts have been real and painful for the agricultural sector. These impacts have been felt on the bottom line of many farm families. As a result of these cuts, net cash farm income is now approximately 10 percent lower.

Let me stress that these cuts are not the typical Washington sleight-of-hand, that is, cuts from some projected higher-level budget. They are real, they are extensive, and have occurred at a time when farmers are being forced to comply with more restrictive environmental mandates. I would note that the AFBF supported some of these cuts -- such as a lowering of the target prices in the 1985 farm bill. As a result of these reductions, however, government payments to farmers are now approximately one-third lower than they would have otherwise been.

Agriculture is currently on more level ground. We are a much leaner and meaner industry. Efforts to stem the loss of export markets to our foreign competitors by keeping loan rates competitive have helped, but the battles for export markets continues to be a fierce one with much government intervention, especially from the European Union and Japan.

The recent passage of the North American Free Trade Agreement (NAFTA) and the pending GATT agreement should create new opportunities for America's farmers, but they are not panaceas which cure all of the trade distortions affecting producers' access to foreign markets. Japan spends two-thirds per capita more on agricultural supports and the Europeans twenty-five percent more than the United States. Market development and export assistance programs must be retained and amply funded if American agriculture is to be a vital, healthy part of the American economy and a foundation for a strong domestic food security policy.

With respect to specific general farm program provisions, Farm Bureau is currently engaged in the development of a proposal. Active 1995 Farm Bill Task Forces are in place in a number of state Farm Bureaus and within the American Farm Bureau Federation that are considering the many alternatives available. Specific proposals for revisions of general program provisions will be forthcoming from these groups and through our policy development process.

However, on a number of issues, our policy is clear:

- * Farm Bureau opposes any income means test applied to farm program payment eligibility as well as efforts to reduce program benefits through lowered payment limitations or repeal of the three-entity rule.
- * If a payment limitation is in effect, no rules in defining "a person" should penalize farm operators who legitimately share labor, equipment and other resources as a normal course of operation.
- * Participation in any federal or state water projects should not adversely affect a grower's participation in any USDA farm program.
- * Producers should not be penalized for taking action based upon inaccurate guidance from USDA officials. If a repayment is required as a result of such action, it should be limited only to principal.
- * Tenants or landowners should not be denied benefits of federal legislation on any farm that is in compliance with the provisions of the program, regardless of the compliance status of their other farms.
- * Agricultural Stabilization and Conservation Service (ASCS) yield procedures should be amended to allow producers to furnish actual production evidence and thereby have a farm payment yield which is based on proven production instead of the current procedure, which is based on outdated yields of similar farms.
- * ASCS should provide producers with flexible programs. This flexibility could be offered through implementation of the targeted option payment (TOP) program or through prorated deferral of the repayment for subtraction from subsequent deficiency payments.

Several key issues affecting the general farm program provisions are deserving of special attention in the upcoming debate. Among these are planting flexibility, acreage reduction

programs, expiration of CRP (Conservation Reserve Program) contracts, environmental restrictions and conservation and environmental incentives.

Increased international competition, tighter operating margins and reduced governmental support all call for more allowance for producer flexibility in planting decisions. Currently, most planting flexibility comes with a cost of lost income support. (All flex acres are nonpaid acres.) In addition, planting flexibility excludes the ability to plant program crops (such as corn wheat or cotton) on oilseed acres. Policy options for the 1995 farm programs should consider allowance for some planting flexibility without loss of program benefits. In addition, establishment of a mechanism wherein planting flexibility can extend to the whole farm should be considered.

There is significant evidence that acreage reduction programs (particularly annual set asides) have contributed to a loss in export market share and have been only partially effective as a price support mechanism. Over the past decade or so, U.S. producers have foregone production of approximately 500 million metric tons of grains while foreign producers have expanded production by more than 480 million metric tons -- nearly a one-for-one replacement. Foregone U.S. cotton production has been replaced by foreign producers on a six-for-one basis. Alternatives to annual set asides, such as multi-year set asides designed to achieve conservation/wildlife habitat goals, an environmental TOP (Targeted Option Payment) program, and a flexible CRP program -- which acts as a natural resource reserve -- should be explored.

Modification of the budget rules to establish a baseline budget for the extension of a major portion of the CRP without extracting the funds from the price support programs would enhance both programs. High annual set asides (which would likely be required if CRP is not extended) would be devastating to net farm income and increased nonpaid flex acres as a means to control budget exposure would reduce participation rates to levels that render the programs ineffective as either a supply control mechanism or as a way to stabilize farm income.

Modification of general farm program provisions to include incentives for conservation-related activities (green payments) is deserving of consideration. However, incentive payments should not be funded by reductions in direct income support payments. Farmers have made substantial progress toward reducing agricultural nonpoint pollution through voluntary measures with appropriate incentives. Enhancement of these achievements can be supported through properly designed companion programs which work in concert with the traditional commodity price support programs.

Thank you for the opportunity to express our views on this most important topic.

Additional written comments are attached.

TRADE AGREEMENT IMPACTS

Farm Bureau has been an ardent supporter of efforts to expand export opportunities for U.S. agricultural commodities. We were among the leaders in efforts to assist the passage of the NAFTA through Congress. In their March 1994 meeting, the Farm Bureau Board of Directors voted to support passage of the GATT implementing legislation. However, recent events are raising questions about whether Farm Bureau can continue this support.

Throughout the seven years of negotiations, Farm Bureau was supportive of the basic concept embodied in the U.S. negotiating position calling for substantial and progressive worldwide reductions in trade distorting subsidies. We steadfastly opposed reductions in U.S. programs and trade measures without equivalent commitments by other countries.

If the Uruguay Round implementing bill contains program funding reductions beyond those required under the agreement, foreign countries would not be undertaking "equivalent commitments" as required in Farm Bureau policy. More to the point, however, is the fact that our members have been told repeatedly since the so-called Blair House accord two years ago that the Uruguay Round would not require domestic U.S. farm programs to be cut any more than the substantial cuts already undertaken in the last two farm bills. If the agricultural budget is targeted for more reductions to cover a disproportionate share of expected tariff revenue losses, few in agriculture will be able to support the implementing legislation.

In addition, Farm Bureau believes that now is not the time to abandon aggressive export market promotion programs. Both the NAFTA and pending GATT agreements, with few exceptions, will provide greater market opportunities for U.S. agriculture. In the short-run, these benefits are expected to be marginal. The real potential is in the long-run. With trade-generated economic growth worldwide and continuing tariff reductions, substantial gains from trade can be expected. The European Union, Japan and other foreign competitors can be expected to continue to use every tool at their disposal to maintain and/or expand their share of world markets. Without the commitment of the U.S. government, U.S. agriculture will be at a significant competitive disadvantage in world markets.

Unfortunately, just at the time when we are poised to take advantage of a new world trade era, proposed budgets emerging from the Administration and Congress are slashing funds from the very "Green Box" programs U.S. negotiators worked so hard to maintain. Instead of backing aggressive export market promotions with all the GATT legal tools in our box, the Administration responds with the following: a 22 percent cut in PL-480 funds; a 25 percent reduction in the Market Promotion Program; an 18 percent reduction of the Foreign Market Development Program; and a total elimination of the SOAP and COAP funding. Reductions in funding for these important programs will further disadvantage U.S. agriculture's efforts to maintain existing overseas markets and reap any potential benefits from current and pending trade agreements.

To realize the promises of the GATT agreement, we believe a number of actions are necessary. First, we strongly urge that funding for export-related programs which are subject to discipline, be maintained at current program levels for FY1995. This includes the EEP, DEIP, SOAP and COAP. Similar level funding should be maintained for those programs which are now included in the "Green Box" category under GATT.

Second, we urge the Administration to support as part of the GATT implementing legislation the establishment of a new Agricultural Investment and Market Expansion Program (AIME). In addition to consolidating and streamlining existing export-related programs such as EEP, DEIP, SOAP and COAP, it would maintain the maximum use of each as allowed under GATT. It would also provide that any additional funds no longer available for use as export subsidies be "reinvested" as allowed under GATT for various "Green Box" programs. These

would include but not limited to market development, market promotion and food assistance.

Such actions, we believe, will help maintain the ability of U.S. agriculture to remain viable and competitive under GATT and continue to meet both domestic and overseas food needs. It will also send a signal to our competitors and customers that the U.S. is not abandoning its agriculture and that the Uruguay Round is the beginning, not the end, of our efforts to move toward more open and fair world trade. During the Uruguay Round transition period the U.S. should continue to use all the tools at its disposal to balance the continuing export support other countries provide their agriculture.

MP/sc

BUDGET CONSTRAINTS SECTION

With the increasing concerns about the federal budget deficit, both the Congress and the Administration have focused on ways to reduce government expenditures. Media stories often express concern that spending for farm programs is excessive, out of control, or no longer needed. None of these statements bears the slightest resemblance to reality.

First, consider USDA outlays in terms of nominal and inflation-adjusted dollars (Chart 1). Note that the solid line, USDA outlays in nominal dollars, appears to be increasing although at a much slower rate in the last 10 years than the prior 10 years. However, once an adjustment is made for inflation, it becomes readily apparent that USDA outlays are significantly under the levels of the mid-1980s and have been relatively flat in recent years.

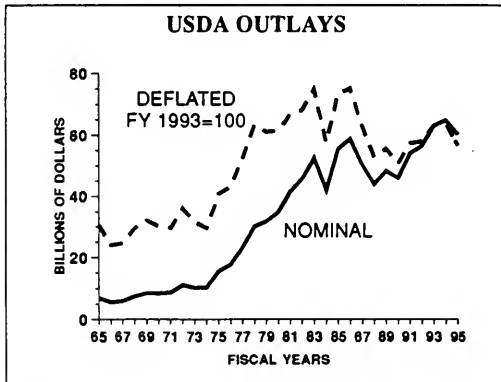


Chart 1

It is also interesting to look at USDA outlays as a percentage of total federal outlays. As can be seen in Chart 2, USDA outlays account for approximately four percent of total federal outlays at the lower end of the range for all the years except just after the Korean War.

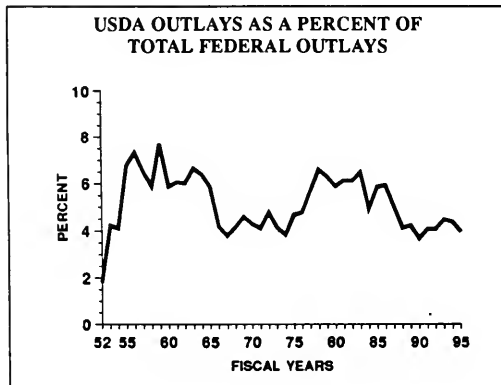


Chart 2

Looking at USDA outlays in the aggregate can be somewhat misleading, however, if the focus is on ag function or farm program activities. As can be seen in Chart 3, Ag Function Outlays Versus Food Nutrition Services, ag function outlays have dropped significantly since the mid-1980s, ranging between \$12 billion and \$20 billion in recent years and averaging approximately \$15 billion. The real increases in USDA spending have been in the area of food and nutrition services, primarily food stamps and to a lesser extent Women, Infants and Children (WIC). In 1970, food nutrition service expenditures were less than \$1 billion. By 1980, they jumped to \$13.6 billion. By 1990 they almost doubled at \$23.6 billion and by 1993 they totalled over \$35 billion. To the extent there have been increases in the USDA budget, it has been almost exclusively in the area of food and nutrition services in the past 10 years.

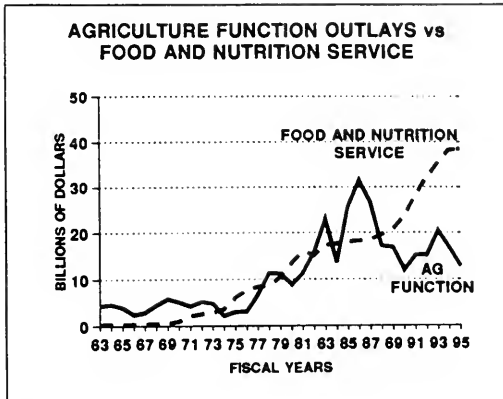
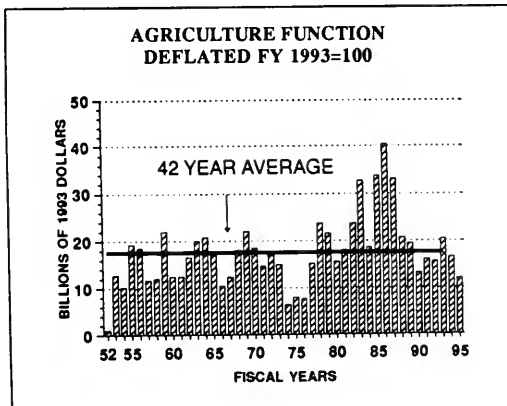


Chart 3

With respect to ag function spending, please note Chart 4, Ag Function Deflated FY1993 = 100, which shows ag function spending over the past 42 years adjusted for inflation. Except for a brief period in the early and mid-1980s, ag function spending has stayed in a relatively narrow range of \$10 billion to \$20 billion



in real dollars, averaging approximately \$18 billion over the 40-plus year time period. Although ag function spending did rise to the top of that range in 1993, current projections are that it will return to the lower end of the range over the next couple of years.

Reduced farm program spending on agriculture has already had a significant impact. The reductions since 1986 reflect changes in the farm program which include such things as lower target prices, frozen crop base yields, a 15 percent reduction in deficiency payments via the flex acreage program and an assessment on milk producers. The impact of these changes in the farm program are shown in Table 1. As can be seen in the table, the cumulative total for the past five fiscal years is \$18.9 billion. The six commodities utilized in developing this

TABLE 1
REDUCTION IN GOVERNMENT EXPOSURE
FROM LOWER TARGET PRICES, FROZEN YIELD AND FLEX ACREAGE *

FISCAL YEAR	LOWER TARGET PRICES	FROZEN CROP BASE YIELDS	FLEX** ACRES (million dollars)	DAIRY ASSESSMENT**	TOTAL
1989	\$1,395	\$ 96	-	-	\$ 1,491
1990	2,472	189	-	-	2,661
1991	3,465	303	-	72	3,840
1992	3,448	306	1,089	190	5,033
1993	<u>3,525</u>	<u>261</u>	<u>1,916</u>	<u>211</u>	<u>5,913</u>
Cumulative Total	\$14,305	\$1,155	\$3,005	\$473	\$18,938

*Based on the impact on corn, sorghum, wheat, rice, cotton and milk which typically account for about 90 percent of total annual CCC payments to farmers. CCC commodity outlays to farmers plus disaster payments are defined as direct government payments in USDA farm income statistics.

**Provisions of the Omnibus Budget Reconciliation Act of 1990.

table account for about 90 percent of total annual CCC payments to farmers. Therefore, total expenditures over the five-year period were reduced about \$21 billion. It should be stressed that these have been real and painful cuts for the agricultural sector. However, the American Farm Bureau Federation supported some of these cuts, such as a lowering of the target prices, with respect to the 1985 farm bill. As a result of these reductions, government payments to farmers are now approximately one-third lower than they would have otherwise been.

Chart 5, Reduction in Government Exposure, shows how much larger the ag function cost would have been had these cuts not been made. Chart 6, Impact on Net Cash Farm Income, shows the impact of these cuts on net cash farm income. As a result of these cuts, net cash farm income has been reduced approximately 10 percent.

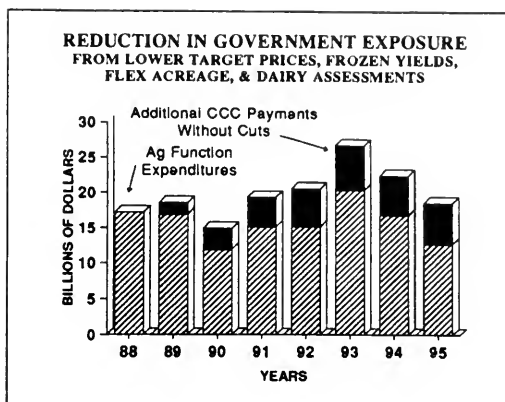


Chart 5

It should be stressed that these cuts are not the typical Washington sleight-of-hand, that is cuts from some projected higher-level budget. They are real, they are extensive, and the farm sector has gone through a painful adjustment period in the 1980s as a result of these cuts.

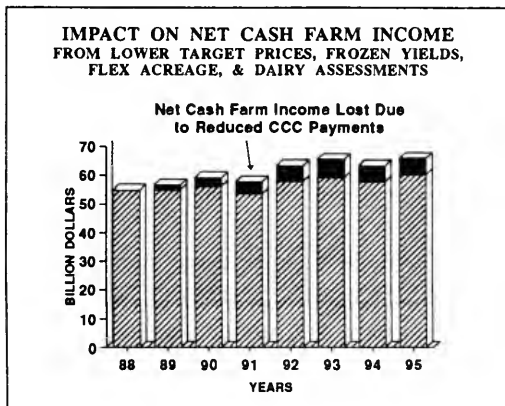


Chart 6

Agriculture is currently on more level ground: a much leaner and meaner machine as a result of the cuts in farm program spending and the loss of export markets to foreign competitors. That brings up a final point with respect to future farm programs.

There is a growing perception that, as a result of the recently passed NAFTA and, soon-to-be passed GATT agreement, that agriculture has no further problems in the foreign arena. Again, this is a far cry from the reality of today's highly competitive international marketplace. In fact, other countries are spending significantly more to subsidize their agriculture sector than the United States.

The following tables measure that spending in three ways. First, Table 2, Total Transfer Share of Agriculture Transfers in Total GDP (%), shows four other countries and the United States. Please note that some countries spend double the level of the United States, and the EC and Japan spend one-half to one-third more than the United States.

TABLE 2
SHARE OF TOTAL AGRICULTURAL TRANSFERS IN TOTAL GDP (%) *

Member Country	1988	1989	1990	1991	1992
Canada	1.8	1.6	1.6	1.8	1.6
European Community ¹	2.2	1.9	1.9	2.0	2.0
Japan	2.4	2.3	2.1	1.9	2.0
Switzerland	3.1	2.7	2.6	2.7	2.4
United States	1.4	1.3	1.3	1.4	1.5
OECD average ²	2.1	1.8	1.9	2.1	2.1

¹Including ex-GDR in 1990, 1991 and 1992. ²Excluding Iceland and Turkey

This spending differential becomes even more dramatic when viewed on a per capita basis. In Table 3, Total Transfers to Agricultural Programs, the first line, per capita, shows the spending on a per person basis. Note that Japan spends two-thirds more than the United States and the Europeans spend 25 percent more than the United States on a per capita basis. Also note Switzerland, a country that spends over twice as much per capita as the United States. Recently, an AFBF staff member had the opportunity to visit with a legislator from the Swiss lower parliament, equivalent to the U.S. House of Representatives, about their farm program. He asked this legislator how the government could afford to spend so much money to support Swiss farmers.

The Swiss legislator replied that there were two reasons. First, Switzerland, as nearly all of Europe, was faced with a serious food shortage during World War II and wanted to become as self-sufficient as possible, regardless of the cost. Second, he indicated that Switzerland's chief industry was tourism and that it was necessary to have prosperous-looking farmers for the tourists as they travelled through the countryside, even though from an economic perspective they were small and inefficient units. This is a fairly common attitude throughout Europe.

TABLE 3
TOTAL TRANSFERS TO AGRICULTURAL PROGRAMS *
1992

	Canada	EC	Japan	Switzerland	U.S.	Average OECD
Per capita	\$330	\$450	\$ 600	\$ 840	\$360	\$440
Per acre of farmland	\$ 50	\$453	\$5,714	\$1,153	\$ 85	\$125

The second line of Table 3, per acre of farmland, gives probably the most accurate and startling view of the subsidy level in these countries versus the United States. U.S. farmers received total transfers of \$85 per capita acre. Note in Table 4 that only \$9 per acre of this is in the form of direct farm

support (actually paid to farmers), \$43 comes in indirect support, and \$33 is for consumer programs such as food and nutrition. Again, note Switzerland, supported at a level of \$1,153 per acre. In the EC, the average support is \$453 per acre, over five times the level of support given to U.S. farmers. But the most unbelievable number is with Japan, where transfers total \$5,714 per acre. With these kind of farm income subsidies, it is extremely difficult for U.S. farmers to compete, regardless of their level of efficiency.

TABLE 4
BREAKDOWN OF U.S. TRANSFERS
1992

	Consumer Support/Food And Nutrition	Indirect Support	Direct Payment to Farmers	Total
Per capita	\$142	\$182	\$36	\$360
Per acre of farmland	\$ 33	\$ 43	\$ 9	\$ 85

Agreements such as NAFTA and GATT cut tariff barriers and make some subsidy cuts. However, the GATT subsidy cuts are only 21 percent (quantity subsidized) to 36 percent (budget outlays for all subsidies) over a 5 to 10-year period. Even when fully implemented, EC farmers will get on average 3.5 times the level of subsidies of U.S. farmers. Japanese farmers continue to protest about the potential of importation of a limited amount of U.S. rice into their country. However, even after all the GATT agreements are implemented it will only reduce their subsidy level by about one-third. Consequently, Japanese farmers will still be receiving subsidies 45 times the level of U.S. farmers. With few exceptions, the cuts already made in the U.S. farm program meet the GATT requirements when fully implemented.

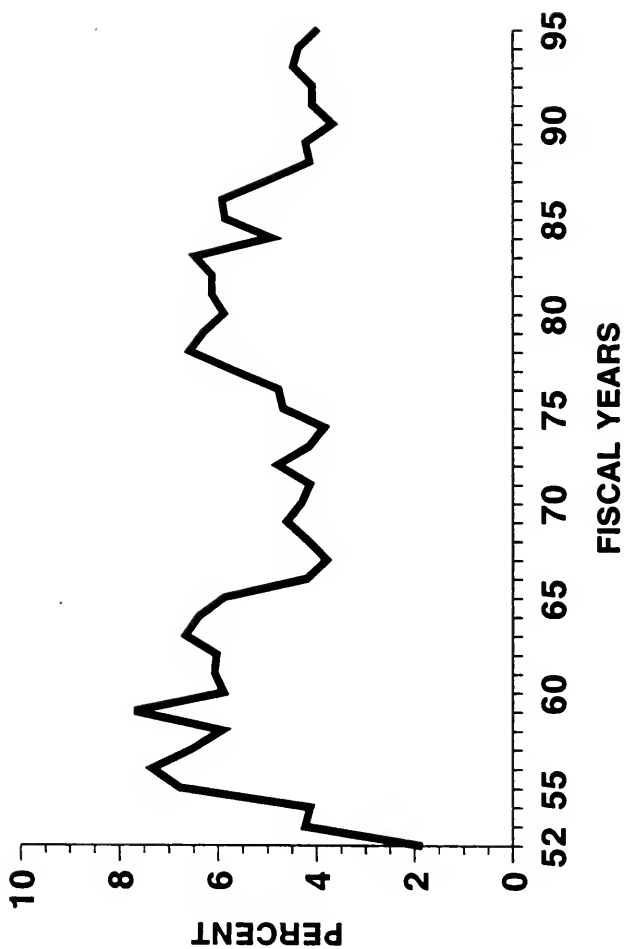
U.S. farmers are proud of the contribution they have made to reducing the U.S. federal deficit to date. However, until there are similar adjustments in other areas of government, it is difficult to justify further cuts in U.S. farm program. U.S. farmers have already accepted more than their share of cuts and hope others will follow their example. Indeed, when the other sectors of government have accepted cuts similar to those applied to agriculture, farmers will be happy to examine ways to make another contribution to further reducing the federal deficit.

TF/skc

* *SOURCE: Agricultural Policies, Markets and Trade, Monitoring and Outlook, Organization for Economic Cooperation and Development (OECD), 1993.* Care should be exercised in making comparisons across countries due to the fact that there are considerable differences in national accounting procedures, budgetary practices and constitutional responsibilities. In addition, because the relative values of currencies with respect to each other move at different rates over time, the variation in total transfers expressed in an alternative currency will be different from that expressed in U.S. dollars. Although the specific numbers for an individual country change frequently, the relative difference between countries changes more slowly. Nevertheless, readers are encouraged to review the source document.

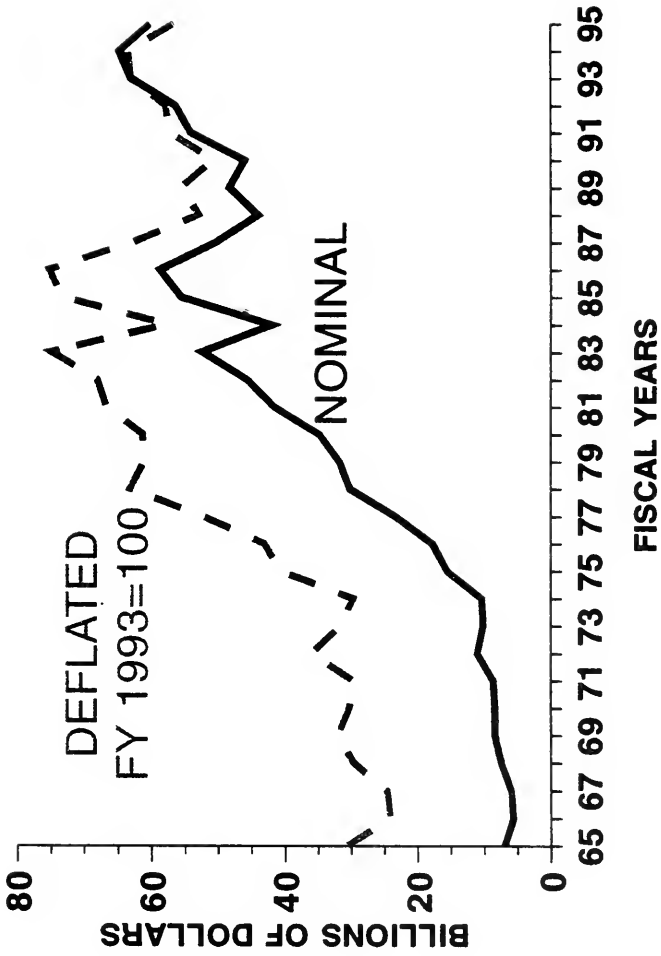
(Attachment follows:)

USDA OUTLAYS AS A PERCENT OF TOTAL FEDERAL OUTLAYS

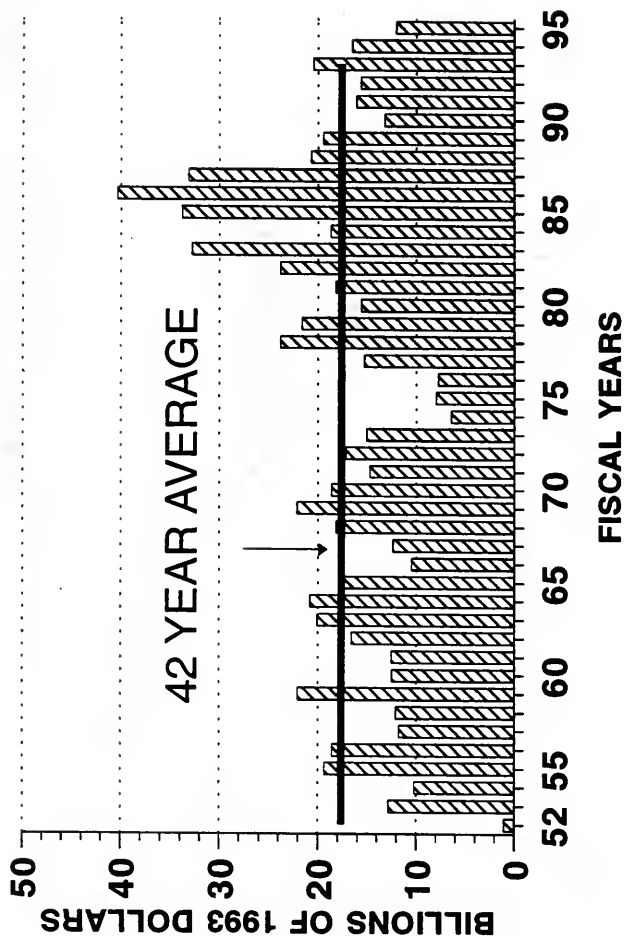


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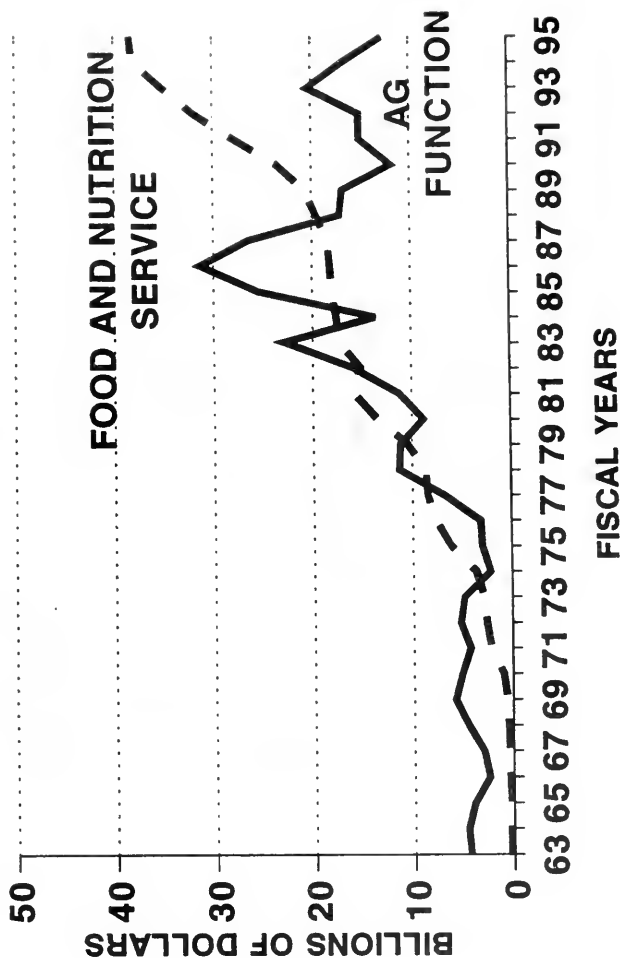
USDA OUTLAYS



AGRICULTURE FUNCTION DEFLATED FY 1993=100

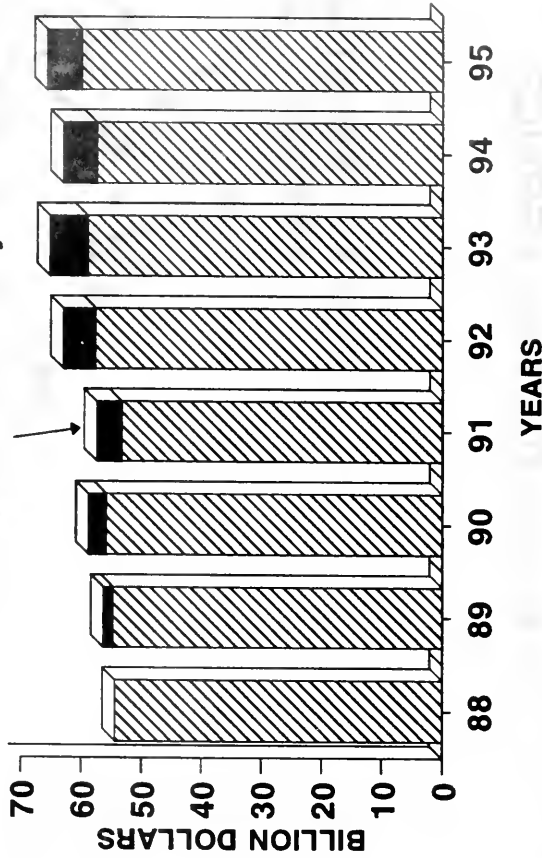


AGRICULTURE FUNCTION OUTLAYS vs FOOD AND NUTRITION SERVICE



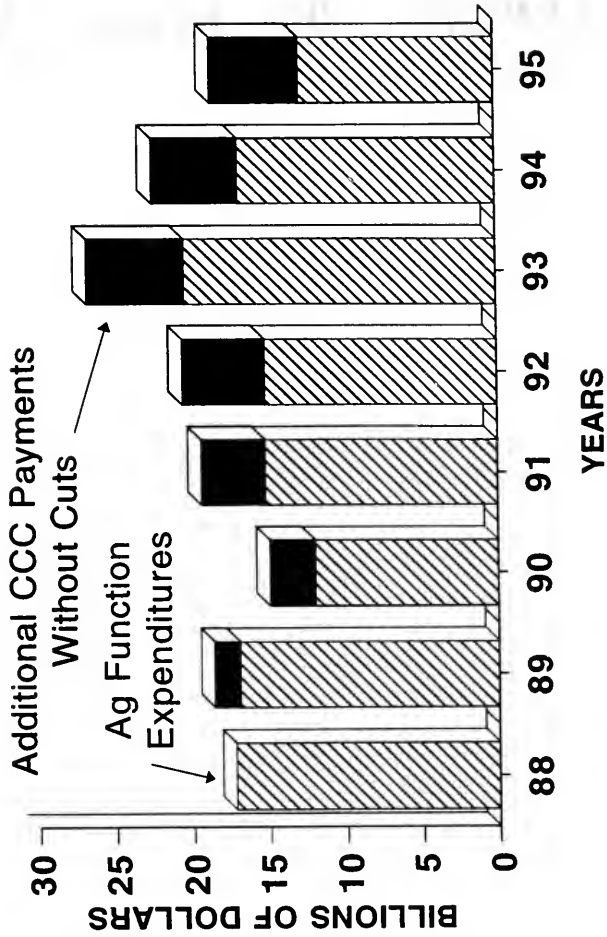
IMPACT ON NET CASH FARM INCOME FROM LOWER TARGET PRICES, FROZEN YIELDS, FLEX ACREAGE, & DAIRY ASSESSMENTS

**Net Cash Farm Income Lost Due
to Reduced CCC Payments**



AFBF Public Policy Division
JUNE 94:REDCTNNI

REDUCTION IN GOVERNMENT EXPOSURE FROM LOWER TARGET PRICES, FROZEN YIELDS, FLEX ACREAGE, & DAIRY ASSESSMENTS





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Walthill, Nebraska 68067-0405
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Testimony of Ferd Hoefner
on behalf of the Center for Rural Affairs
and the Sustainable Agriculture Coalition
before the
General Farm Commodities Subcommittee
of the
House Agriculture Committee

July 14, 1994

Mr. Chairman and members of the Subcommittee, thank you for the invitation to speak today at this critical time in the history of American agriculture.

The average age of farmers is nearing 60 and over half of the nation's land is operated by farmers who are likely to retire within the next ten years. At the same time, entry levels for beginning farmers have fallen to alarmingly low levels. We are in danger of permanently losing a major share of the nation's farming opportunities. As Iowa State University agricultural economist Neil Harl has stated the case, "We are poised on the edge of the greatest period of farm consolidation in history."

But it need not be that way. If we adopt a set of policies designed to support economic opportunity in agriculture, the land made available by retiring farmers over the next decade could provide the base for a new generation of beginning family farmers.

While changes in many different areas of agriculture policy will be required to achieve this goal, the decisions made by this Subcommittee on the programs in its jurisdiction will be crucial in determining the outcome. If we continue to design federal farm programs to reward consolidation in agriculture by assisting well-established large farms in acquiring control of the land, they will bid moderate-size and beginning farmers out of the land market. Neil Harl's warning will become reality. By contrast, if we focus program benefits on supporting modest volumes of production and enhancing the competitive position of moderate-size farms, there can be a viable future for family farming and farm communities.

Federal commodity program policy, however, has moved in the opposite direction in recent years, away from supporting farming opportunities. Moderate-size grain farms have taken very substantial cuts under the terms of the 1990 Budget Act, while the nation's largest farms have taken no cuts. Most farms with sufficient acreage to receive the maximum \$100,000 deficiency payment prior to the 1990 Budget Act continue to receive \$100,000.

Submitted with my testimony is a copy of a study released today by the Center for Rural Affairs. It compares deficiency payments received by 38 moderate-size and large model farms producing wheat, feed grains, rice, and cotton in 13 states, using actual payments for 1990 and 1993 and CBO projected payments for 1994. The findings of the study demonstrate the serious inequity of using across-the-board mechanisms to impose farm program cuts.

For example, the study found that a Missouri moderate-size 1,100 acre corn, wheat, and soybean farm is projected to receive a \$16,312 deficiency payment this year, a 32 percent cut from 1990 levels. The majority of that cut, though not all of it, is due to the 1990 Budget Act provisions. By contrast, a large 8,000 acre Missouri corn, wheat, and soybean farm is taking no cut. It is projected to receive \$100,000 this year, just as it did in 1990.

By commodity, moderate-size corn producers will take an average 25.9 percent cut in deficiency payments in 1994 compared to 1990. For moderate-size wheat producers, the average cut will be 39.6 percent. A large part of these cuts stem from the imposition of mandatory unpaid flex acres and the shift to 12-month average market prices in calculating deficiency payments.

We strongly urge this Subcommittee to focus commodity programs on supporting the establishment and survival of moderate-size family farms, rather than subsidizing land consolidation. We urge you to rectify the inequity of the last round of cuts, and, should any future cuts be imposed, to structure them in a fair manner.

We also urge you to redesign commodity programs to reward resource stewardship and assist farmers in meeting the environmental challenges facing agriculture, and to do so in a cost effective and farmer friendly manner.

Toward those ends, we are developing a proposal to establish an Environmental Reserve Program to largely replace the Acreage Reserve Program. Under this proposal, farmers would no longer idle land as a condition of receiving deficiency payments in most years. Instead, a portion of deficiency payments would be moved to a pool to pay farmers to reduce production in environmentally beneficial ways.

Farmers would bid to participate. USDA would accept that combination of bids that meets fiscal and production targets, while achieving the maximum environmental benefit. Both special conservation practices -- contour grass strips, buffer areas and filterstrips, and covered endrows, for instance -- and integrated crop management plans could qualify.

Advantages of this Environmental Reserve Program are:

- * It would neither decrease farm income nor increase the overall cost of the farm program. Farmers already incur the cost of reduced production and the federal government already compensates them for doing so. This program would simply rationalize the arrangement by using the foregone production and federal expenditures to achieve far greater environmental good.

- * It would provide farmers greater flexibility and allow them to be more responsive to both economic signals and environmental objectives. Farmers who have highly productive land could choose to farm it all and still receive deficiency payments. Those who farm more economically marginal land or need help in addressing particular environmental problems could apply to enroll and be rewarded for improving environmental performance.

The Sustainable Agriculture Coalition is preparing a detailed analysis of this proposal, and will be pleased to share it with you as we proceed.

We also urge that improvement of the Integrated Farm Management commodity program option be on your agenda. We were pleased that USDA earlier this year revised the regulations for the IFM program to finally bring them into line with the 1990 Farm Bill. Now if we can ever get local ASCS and SCS personnel trained in how to use the program more of its potential might be realized.

Legislative changes, however, are required to further reduce farm program barriers to the adoption of resource-conserving crop rotations and other conservation practices. We are developing a set of reforms to both increase the flexibility and simplify the rules of the IFM program and will be happy to share that with you in the near future.

In closing, let me note that targeting farm program benefits, creating an environmental reserve, and improving the IFM program are but three priorities of a larger set of issues we are working on in conjunction with the Campaign for Sustainable Agriculture, a national network of farm and nonfarm groups working together in preparation for the next farm bill. I know that the national Campaign stands ready, as do we, to work with you in developing these and other options for the farm bill.

Thank you for the opportunity to testify. I would be happy to try to answer any questions you may have.

**LARGE FARMS CONTINUE TO RECEIVE
\$100,000 IN DEFICIENCY PAYMENTS WHILE
MOST MODERATE-SIZED FARMS TAKE CUTS**



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LARGE FARMS CONTINUE TO RECEIVE \$100,000 IN DEFICIENCY PAYMENTS WHILE MOST MODERATE-SIZED FARMS TAKE CUTS

The nation's largest farms are gaining a growing share of deficiency payments for wheat, rice and feed grains, while the share received by moderate-sized farms is falling.

This regressive shift in payments stems largely from the 1990 Budget Act. That Act reduced expenditures by eliminating deficiency payments on 15 percent of base acres, called "normal flex acres", and changing the time period for calculating deficiency payments for wheat, feed grains and rice. These measures have been effective in reducing deficiency payments to moderate size farms. But because the Budget Act failed to close loopholes in the nominal \$50,000 limitation on deficiency payments, many of the nation's largest farms have taken no cut.

Deficiency payments to model moderate-sized and large farms producing various farm program commodities in 13 states were calculated for 1990, 1993 and 1994. The actual payment cuts experienced by moderate-sized farms varies by commodity, due to market fluctuations. Higher market prices result in lower deficiency payments and vice versa. Nonetheless, moderate-sized producers of all eligible commodities except cotton will experience significant decreases in their support in 1994, relative to 1990 levels, according to Congressional Budget Office projections.

HIGHLIGHTS

* A moderate-sized 630-acre irrigated Nebraska corn and soybean farm is projected to receive a \$24,235 deficiency payment in 1994, 25.9 percent less than the 1990 level. It received an even lower payment of \$14,969 in 1993, a 54.2 percent reduction from 1990, due to weather induced corn price increases. A 4,209-acre large farm producing the same commodities is taking no cut. It received \$100,000 in deficiency payments in both 1990 and 1993, and is projected to receive the same amount in 1994.

* In Iowa, a moderate-sized 680-acre corn and soybean farm is projected to receive a \$13,600 deficiency payment in 1994, 25.9 percent less than the 1990 level. Like the Nebraska farm, it also took a 54.2 percent cut from the 1990 level and received a payment of \$8,400 in 1993. Its 8,096-acre large farm counterpart is taking no cut. It

received \$100,000 in both 1990 and 1993, and is projected to receive the same amount in 1994.

* A Missouri 1,500-acre rice, corn, sorghum and soybean operation is projected to receive a \$34,993 deficiency payment in 1994, 65.0 percent less than its 1990 payment. This dramatic drop reflects much improved rice market prices as well as the 1990 Budget Act. This moderate-sized farm received \$98,535 in 1993, just 1.5 percent less than the maximum \$100,000 payment it received in 1990. Its 4,287-acre large farm counterpart is taking no cut; it received the maximum \$100,000 payment in 1990 and 1993 and is projected to receive the maximum payment again in 1994.

* In Kansas, a moderate-sized wheat and sorghum farm is projected to receive a \$28,370 deficiency payment in 1994, 39.0 percent less than its 1990 payment. This 1,175-acre farm received \$33,434 in 1993, a cut of 28.1 percent from the 1990 level, when wheat market prices were lower and before implementation of the 1990 Budget Act. Its 4,142-acre large farm counterpart is taking no cut, since it received \$100,000 in both 1990 and 1993, and is projected to receive the same amount in 1994.

* The deficiency payments received by a 400-acre California rice farm fell only 4.3 percent, from \$93,184 in 1990 to \$89,152 in 1993, primarily because the impact of flex acres was offset by a reduction in set-aside acres from 20 to 5 percent. (Lower set-aside rates mean that farmers receive payments on a higher proportion of base acres.) In 1994, however, deficiency payments for rice are expected to be at their lowest level since 1978. This moderate-sized farm is projected see its deficiency payment reduced by 76.0 percent, to \$22,372. Its 1,788-acre large counterpart is taking no cut. It is expected to continue to collect \$100,000 in 1994, just as it did in 1990 and 1993.

* A moderate-sized South Carolina corn, soybean and wheat farm is projected to receive a \$40,832 deficiency payment in 1994, 32.6 percent less than its 1990 payment. In 1993, this 2,250-acre farm received even less, \$35,844, a 40.9 percent reduction from 1990, reflecting last year's higher corn prices. Its 6,279-acre large farm counterpart is taking no cut. It received the maximum \$100,000 payment in 1990 and 1993 and is projected to again receive the

maximum payment in 1994.

* A 769-acre Indiana corn, soybean, wheat and hog operation is projected to receive \$20,978 in 1994, 26.4 percent less than its 1990 deficiency payment. In 1993, this moderate-sized farm took a 53.3 percent payment cut and received even less, \$13,300, reflecting higher 1993 corn prices. In all three years, the 5,760-acre large farm counterpart would receive the full \$100,000 limit. It is taking no cut.

* A 1,600-acre North Dakota wheat, barley and sunflower farm is projected to receive \$27,866 in 1994, a 19.1 percent cut relative to 1990. This moderate size farm's 1993 payment was virtually identical to the 1990 level. This is because barley prices fell from their unusually high 1990 levels, resulting in an increased deficiency payment rate for barley that offset the imposition of flex acres. The 5,742 acre large farm counterpart is taking no cut. It received \$100,000 of deficiency payments in 1990 and 1993, and is projected to receive the same amount in 1994.

* A moderate-sized cotton and soybean farm in Mississippi is projected to receive \$52,201 in 1994, a 60.4 percent increase from the 1990 level, reflecting falling cotton prices. This same 1,470-acre farm received \$78,827 in 1993. Its 4,297 acre large farm counterpart is seeing neither a decrease nor an increase in its payments. It received \$100,000 in both 1990 and 1993, and is projected to receive the same in 1994.

These and additional data are presented in Appendix C at the end of this report.

SOURCE OF INEQUITIES IN PAYMENT DISTRIBUTION

The regressive effect of payment cuts stems from the interplay between the limitation on farm program deficiency payments and the mechanisms used in recent budget legislation to reduce deficiency payment costs. The 1990 Budget Act used two methods to reduce deficiency payments. It designated 15 percent of farmers' base acres as "normal flex-acres" and provided that farmers would receive no deficiency payments on those acres, beginning in 1991.

A second cost-cutting mechanism in the 1990 Budget Act provided that, beginning in 1994, deficiency payments for wheat, feed grains and rice would be calculated according to the twelve month average market price of the

commodity, rather than the average market price during the five months immediately following harvest. That change is projected to result in a narrower spread between target prices and market prices and thereby lower deficiency payments.

While each of these provisions has reduced or would reduce payments to moderate-sized farmers, many of the nation's largest farms are unaffected. Their farms are sufficiently large to qualify for the maximum \$100,000 payment allowed by law, in spite of the cuts. Although the deficiency payment limitation is nominally set at \$50,000, large farmers are allowed to subdivide their farms into up to three legal entities to qualify for payments of up to \$100,000.

Increases in normal flex-acres have been proposed to offset other federal expenses including costs of environmental incentive payments to farmers, to reduce the impact of the loss of tariff revenue under GATT, and to meet future deficit reduction targets. Such increases in normal flex acres would add to the regressive impacts documented in this report. Family-size farms would face additional cuts, while many of the nation's largest farms would again take no cut.

ANALYSIS BY COMMODITY

Corn: Moderate-sized corn producers took an average of a 54.2 percent cut from the 1990 level in their deficiency payments in 1993 due to the combined effects of the imposition of flex acres and higher market prices. In 1994, support for moderate-sized farms is expected to be 25.9 percent less than the 1990 level, as market prices return to more normal levels.

Rice: Rice producers have received much higher levels of deficiency payments per acre than producers of other crops. For example, in 1990, the moderate-sized rice farms in this study received an average of \$200 per base acre, while the moderate-sized corn farms received an average of only \$52 per acre of corn base. In 1993, moderate-sized rice farms took an average of only a 4.3 percent cut in their payments, because the imposition of flex acres was offset by a decrease in set-asides from 20 to five percent. (Deficiency payments are not made on set-aside acres so increasing planted acres results in higher payments.) Market prices for rice are expected to dramatically increase in 1994, so deficiency payments are predicted to be at their lowest level since 1978. Moderate-sized farms are expected to take a cut of 76.0 percent relative to their 1990 deficiency payments.

Wheat: Moderate-sized farms that produced wheat received deficiency payments in 1993 that were 26.9 percent lower than the 1990 level, and their projected payments for 1994 are 39.6 percent lower than in 1990, partially because deficiency payment calculations are based on a 12-month market price average for the first time. The impact of the imposition of flex acres on deficiency payment levels would have been more severe if the five percent set-asides of 1990 were not eliminated in both 1993 and 1994.

Sorghum: Relative to their 1990 deficiency payments for sorghum, moderate-sized farms took a cut of 60.3 percent in 1993. Deficiency payments are expected to be higher in 1994 due to anticipated lower market prices, resulting in a projected payment decrease of 22.4 percent relative to 1990.

Barley: In spite of the imposition of flex acres, the moderate-sized farms' deficiency payments on barley actually increased from the 1990 level by 216.4 percent in 1993 and a projected 145.6 percent in 1994, because of unusually high market prices and low deficiency payments in the 1990 base year. However, all of the barley producers in this study also grow wheat, and increases in barley payments are offset by decreases in wheat payments in 1993 and 1994.

Cotton: The deficiency payments for cotton received by moderate-sized farms actually increased by 142.3 percent in 1993 and are projected to show a 60.4 percent increase in 1994 over the 1990 level. This increase is due primarily to abnormally high cotton prices and low deficiency payments in the 1990 base year.

METHODOLOGY

The moderate-sized grain farms used in this analysis were selected from the representative farms developed by the Agricultural and Food Policy Center (AFPC) of Texas A & M University, as described in the February 1993 AFPC report "Implications of the 1990 Farm Bill and FAPRI 1993 Baseline on Representative Farms". Those farms are briefly described in Appendix A of this report, based on information provided by AFPC.

We developed the large farms used in this analysis ourselves by increasing the AFPC moderate-sized farms to the minimum size that would qualify for the maximum \$100,000 deficiency payment in each of the three years, 1990, 1992 and 1994. These large farms are also described in Appendix A.

We calculated deficiency payments for each of the farms by using actual final deficiency payment rates and Acreage Reduction Program (ARP or set-aside) levels for both 1990 and 1993. For 1994, we used actual ARP rates and deficiency payment rates projected by the Congressional Budget Office.

Payments from the years 1990, 1993 and 1994 were chosen for analysis. The last year prior to the imposition of flex acres was 1990. We chose 1993 because it was the last year preceding the shift to the use of the 12 month average price in calculating deficiency payments. Both of these cuts will be imposed together in 1994 for the first time.

We assumed that farm operators receive all of the deficiency payments on the land they farm, and that no portion is paid to share-rent landlords. Accounting for share rents would not appreciably change the results of this analysis, except that it would show somewhat smaller payments to moderate-sized farms and the large farms would have to be slightly bigger to reach the \$100,000 payment level.

We also assumed that any farmers affected by the nominal \$50,000 limit have reorganized their farms into three or more separate entities, and now are subjected to a \$100,000 limit. In the data tables, any farms with sufficient base acres and program yields to collect more than \$100,000 are shown to actually receive only \$100,000.

One caveat is in order. Since our analysis is based on actual and projected deficiency payments, it reflects changes in payment levels caused by shifts in market prices and set-aside levels that are unrelated to the 1990 Budget Act. We make no attempt to disaggregate the effects of the Budget Act from these other factors. Clearly, however, the 1990 Budget Act is reducing payments to moderate-sized farms relative to what they otherwise would have been.

IMPLICATIONS

These findings demonstrate the serious inequity of using across-the-board increases in flex acres and shifting to the use of the 12-month average market price in calculating deficiency payments, as a means of reducing farm program budget costs. Many large farms have taken no cuts, while moderate-sized farms have taken substantial cuts.

The analysis also indicates that these cost-cutting approaches are not consistent with the often-stated farm

program objective of strengthening the economic viability of moderate scale commercial family farms. One apparent effect of recent budget legislation has been to weaken the competitive position of moderate-sized farms relative to the large farms with which they compete for land and markets.

There are alternative means of reducing farm program costs that avoid these regressive effects. One option is to eliminate the three entity rule that allows large farms to be subdivided on paper into up to three legal entities to receive double the nominal \$50,000 payment limit. This approach, unlike those adopted to date, would impose a share of the burden of farm program cost reduction on the nation's largest farms.

An additional option for imposing a share of the burden on large farms is to apply set-aside (ARP) requirements to the entire acreages of large farms. Under current law, they are exempted from these requirements on the portion of their acreages on which they do not receive deficiency payments due to the payment limitation. This would be particularly appropriate if increases in set-asides or tighter management

of stocks-to-use ratios are considered to cut program costs.

A third option is to adopt a tiered approach to increases in flex-acres, so that no flex-acre increase would be imposed on the first units of a farm's production. For example, the first \$100,000 of each farmer's value of program crop production could be exempted from future flex-acre increases. While this approach would not in itself impose cuts on the nation's largest farms, it would soften the blow of deficit reduction on most of the moderate-sized farms analyzed and strengthen their competitive position in relation to larger farms.

Such targeted cuts would enhance family farm opportunities by reducing subsidies for large farms to bid land away from moderate-sized and beginning farmers. Also, farm commodity programs are frequently criticized for providing over-sized payments to the nation's largest farms. In the absence of steps to re-direct benefits to moderate-sized farms, the commodity programs become increasingly vulnerable to total elimination.

Appendix A

Characteristics of Moderate Sized Farms Developed by the Agricultural and Food Policy Center and Large Farm Counterparts

Arkansas Grain: A 1,125-acre moderate-sized farm has a 500-acre rice base and a 125-acre wheat base, in addition to producing soybeans on 500 acres in Poinsett County, Arkansas. Its large farm counterpart has a rice base of 2,043 acres and wheat base of 511 acres, and an additional 2,043 acres planted to soybeans.

California Cotton: A moderate-sized California farm has 500 acres of cotton base. Its large farm counterpart has 1,681 acres of cotton base and receives \$100,000 in deficiency payments in 1990, 1993 and 1994.

California Rice: A moderate-sized California farm has 400 acres of rice base. Its large farm counterpart has 1,788 acres of rice base and receives \$100,000 in deficiency payments in 1990, 1993 and 1994.

Illinois Grain and Hog: A moderate-sized farm in Knox County, western Illinois has 500 acres of corn base, 350 acres of soybeans, 25 acres of wheat base and 25 acres of hay. Its large farm counterpart has 3,571 acres of corn base, 2,500 acres of soybeans, 179 acres of wheat base and 179 acres of hay.

Indiana Grain and Hog: A moderate-sized farm in Carroll County, northern Indiana has a 480-acre corn base and a 20-acre wheat base, and soybeans are planted on an additional 269 acres. Its 5,760-acre large farm counterpart has 3,600 acres of corn base, 160 acres of wheat base, and 2,000 acres of soybeans.

Iowa Grain: A Webster County, northwestern Iowa 680-acre moderate-sized farm grows soybeans on 325 acres and corn on 320 base acres. Its 8,096-acre large farm counterpart has a corn base of 3,810 acres, and produces soybeans on 3,870 acres.

Kansas Grain: A 1,175-acre Sumner County, southern

Kansas moderate-sized grain farm has a 1,100-acre wheat base and 75-acre sorghum base. Its large farm counterpart has a wheat base of 3,877 acres and a sorghum base of 265 acres.

Mississippi Cotton: A 1,470-acre Washington County, Mississippi Delta moderate-sized farm has 840 acres of cotton base (630 irrigated and 210 dryland acres) and 560 acres (112 irrigated and 448 dryland acres) of soybeans. Its large farm counterpart has 2,582 acres of cotton base and also produces soybeans on 1,715 acres.

Missouri Grain: A 1,100-acre Carroll County, northern Missouri moderate-sized grain farm has a 200-acre wheat base, 300-acre corn base and 500 acres of soybeans. Its 7,992-acre large farm counterpart has a 1,453-acre wheat base, a 2,200-acre corn base, and 3,630 acres of soybeans.

Missouri Rice: A 1,500-acre Butler County, southeastern Missouri moderate-sized rice farm has 600 acres of rice base, 200 acres each of corn and sorghum base and 500 acres of soybeans. Its 4,287-acre large farm counterpart has 1,714 acres of rice base, 572 acres of corn base, 572 acres of sorghum base, and 1,429 acres of soybeans.

Nebraska Grain: A 630-acre Phelps County, south central Nebraska moderate-sized irrigated grain farm has a 540-acre corn base and 60 acres of soybeans. Its 4,209-acre large farm counterpart has a corn base of 3,608 acres and 400 acres of soybeans.

North Dakota Grain: A 1,600-acre Barnes County, south central North Dakota moderate-sized grain farm has a 800-acre wheat base and a 400-acre barley base, and also produces sunflowers on another 400 acres. The 5,742-acre large farm counterpart has a wheat base of 2,872 acres and a barley base of 1,435 acres, and produces sunflowers on 1,435 acres.

South Carolina Grain: A 2,250-acre Clarendon County, South Carolina moderate-sized grain farm has 750 acres each of wheat base, corn base and soybeans. Its 6,279-acre large farm counterpart has 2,093 acres each of wheat and corn base. It also planted 2,093 acres of soybeans.

Texas Blacklands Cotton: A 1,200-acre Williamson County, Texas Blacklands moderate-sized farm has 460 acres of cotton base and 720 acres of sorghum base. Its 3,114-acre large farm counterpart has 1,194 acres of cotton base and 1,868 acres of sorghum base.

Texas Coastal Bend Cotton: A San Patricio County, Texas coastal bend moderate-sized 1,700-acre farm has 680 acres of cotton base and 1,020 acres of sorghum base. Its 3,131-acre large farm counterpart has 1,252 acres of cotton base and 1,879 acres of sorghum base.

Texas Northern Plains Grain: A 1,600-acre moderate-sized irrigated grain farm in Moore County, of the Texas northern high plains, has a 642-acre wheat base, a

280-acre sorghum base and a 470-acre corn base. Its 3,459-acre large farm counterpart has a 1,388-acre wheat base, a 605-acre sorghum base and a 1,016-acre corn base.

Texas Rolling Plains Cotton and Wheat: A Texas rolling plains moderate-sized farm has 608 acres of cotton base and 390 acres of wheat base. Its large farm counterpart has 3,012 acres of cotton base and 1,932 acres of wheat base.

Texas Southern Plains Cotton: A moderate-sized Texas farm has 911 acres of cotton base. Its large farm counterpart has 5,093 acres of cotton base.

Washington Grain: A 1,276-acre moderate-sized grain farm in Whitman County of southeastern Washington has 565 acres of wheat base, 187 acres of barley base and 498 acres of dry peas. The 4,155-acre large farm counterpart has a 1,840 acre wheat base and a 608 acre barley base, and also produces dry peas on 1,620 acres.

Appendix B

GLOSSARY

The language of farm commodity programs is filled with jargon that is not intelligible to the uninitiated. To help, we provide a few definitions below:

Base Acres: Number of acres on which a farm program participant is allowed to plant a particular crop. "Base" is determined by historic production patterns and is used in calculating deficiency payments.

Deficiency Payments: Farm program payments made to farmers by USDA to compensate for low market prices, generally based on the difference between market prices and higher "target prices" established by law. Crops on which deficiency payments are made include: corn, sorghum,

barley, oats, wheat, rice and cotton. Crops on which deficiency payments are not made include soybeans, alfalfa, rye, buckwheat, canola, sunflowers and others.

Normal Flex Acres: The share of farmers' base acres which may be planted and harvested to the crop of their choice, but on which payments are not received. Normal flex acres are currently set at 15 percent.

Set-aside acres: The portion of base acres that farmers who receive deficiency payments are required to idle in order to prevent over-production, sometimes referred to as ARPs, which is the acronym for Acreage Reduction Program.

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Arkansas grain farms								
Moderate-sized	Wheat	125	41	0.05	0	1.26	\$9,135	
	Rice	500	52	0.2	0	4.16	\$86,526	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$92,663
1993	Wheat	125	41	0	0.15	1.03	\$4,487	
	Rice	500	52	0.05	0.15	3.96	\$62,784	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$87,271
1994	Wheat	125	41	0	0.15	0.65	\$3,703	
	Rice	500	52	0	0.15	0.94	\$20,774	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$24,477
Large	Wheat	511	41	0.05	0	1.26	\$25,076	
	Rice	2,043	52	0.2	0	4.16	\$353,353	
	Soybeans	2,043	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	511	41	0	0.15	1.03	\$18,343	
	Rice	2,043	52	0.05	0.15	3.96	\$338,255	
	Soybeans	2,043	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	511	41	0	0.15	0.65	\$15,137	
	Rice	2,043	52	0	0.15	0.94	\$84,883	
	Soybeans	2,043	n/a	n/a	n/a	n/a	n/a	\$100,000
California cotton farms								
Moderate-sized								
1990	Cotton	500	1,000	0.125	0	0.068	\$29,750	\$29,750
1993	Cotton	500	1,000	0.075	0.15	0.188	\$72,075	\$72,075
1994	Cotton	500	1,000	0.11	0.15	0.129	\$47,730	\$47,730
Large								
1990	Cotton	1,681	1,000	0.125	0	0.068	\$100,020	\$100,000
1993	Cotton	1,681	1,000	0.075	0.15	0.188	\$242,316	\$100,000
1994	Cotton	1,681	1,000	0.11	0.15	0.129	\$160,488	\$100,000
California rice farms								
Moderate-sized								
1990	Rice	400	70	0.2	0	4.16	\$93,184	\$93,184
1993	Rice	400	70	0.05	0.15	3.96	\$89,152	\$89,152
1994	Rice	400	70	0	0.15	0.94	\$22,372	\$22,372
Large								
1990	Rice	1,788	70	0.2	0	4.16	\$416,532	\$100,000
1993	Rice	1,788	70	0.05	0.15	3.96	\$398,506	\$100,000
1994	Rice	1,788	70	0	0.15	0.94	\$100,003	\$100,000
Illinois grain farms								
Moderate-sized								
1990	Wheat	25	40	0.05	0	1.26	\$1,197	
	Corn	500	125	0.1	0	0.51	\$26,688	
	Soybeans	350	n/a	n/a	n/a	n/a	n/a	\$29,665
1993	Wheat	25	40	0	0.15	1.03	\$876	
	Corn	500	125	0.1	0.15	0.28	\$13,125	
	Soybeans	350	n/a	n/a	n/a	n/a	n/a	\$14,001
1994	Wheat	25	40	0	0.15	0.65	\$723	
	Corn	500	125	0	0.15	0.4	\$21,250	
	Soybeans	350	n/a	n/a	n/a	n/a	n/a	\$21,973
Large								
1990	Wheat	179	40	0.05	0	1.26	\$8,571	
	Corn	3,571	125	0.1	0	0.51	\$204,886	
	Soybeans	2,500	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	179	40	0	0.15	1.03	\$6,269	
	Corn	3,571	125	0.1	0.15	0.28	\$93,739	
	Soybeans	2,500	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	179	40	0	0.15	0.65	\$5,173	
	Corn	3,571	125	0	0.15	0.4	\$151,768	
	Soybeans	2,500	n/a	n/a	n/a	n/a	n/a	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Indiana grain farms								
Moderate-sized 1990	Wheat	20	40	0.05	0	1.26	\$958	
	Corn	480	125	0.1	0	0.51	\$27,940	
	Soybeans	269	n/a	n/a	n/a	n/a	n/a	\$26,498
1993	Wheat	20	40	0	0.15	1.03	\$700	
	Corn	480	125	0.1	0.15	0.26	\$12,600	
	Soybeans	269	n/a	n/a	n/a	n/a	n/a	\$13,300
1994	Wheat	20	40	0	0.15	0.85	\$578	
	Corn	480	125	0	0.15	0.4	\$20,400	
	Soybeans	269	n/a	n/a	n/a	n/a	n/a	\$20,976
Large								
1990	Wheat	180	40	0.05	0	1.26	\$7,661	
	Corn	3,600	125	0.1	0	0.51	\$208,550	
	Soybeans	2,000	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	180	40	0	0.15	1.03	\$5,603	
	Corn	3,600	125	0.1	0.15	0.26	\$94,500	
	Soybeans	2,000	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	180	40	0	0.15	0.85	\$4,624	
	Corn	3,600	125	0	0.15	0.4	\$153,000	
	Soybeans	2,000	n/a	n/a	n/a	n/a	n/a	\$100,000
Iowa grain farms								
Moderate-sized								
1990	Corn	320	125	0.1	0	0.51	\$18,360	
	Soybeans	325	n/a	n/a	n/a	n/a	n/a	\$16,360
1993	Corn	320	125	0.1	0.15	0.28	\$8,400	
	Soybeans	325	n/a	n/a	n/a	n/a	n/a	\$8,400
1994	Corn	320	125	0	0.15	0.4	\$13,600	
	Soybeans	325	n/a	n/a	n/a	n/a	n/a	\$13,600
Large								
1990	Corn	3,810	125	0.1	0	0.51	\$218,599	
	Soybeans	3,870	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Corn	3,810	125	0.1	0.15	0.28	\$100,013	
	Soybeans	3,870	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Corn	3,810	125	0	0.15	0.4	\$181,925	
	Soybeans	3,870	n/a	n/a	n/a	n/a	n/a	\$100,000
Kansas grain farms								
Moderate-sized								
1990	Wheat	1,100	34	0.05	0	1.26	\$44,768	
	Sorghum	75	46	0.1	0	0.56	\$1,739	\$46,507
	Wheat	1,100	34	0	0.15	1.03	\$32,744	
1993	Sorghum	75	46	0.05	0.15	0.25	\$690	\$33,434
	Wheat	1,100	34	0	0.15	0.85	\$27,022	
	Sorghum	75	46	0	0.15	0.46	\$1,349	\$28,370
1994	Wheat	1,100	34	0	0.15	0.85	\$27,022	
	Sorghum	75	46	0	0.15	0.46	\$1,349	\$28,370
Large								
1990	Wheat	3,877	34	0.05	0	1.26	\$157,786	
	Sorghum	265	46	0.1	0	0.56	\$8,144	\$100,000
	Wheat	3,877	34	0	0.15	1.03	\$115,407	
1993	Sorghum	265	46	0.05	0.15	0.25	\$2,438	\$100,000
	Wheat	3,877	34	0	0.15	0.85	\$95,239	
	Sorghum	265	46	0	0.15	0.46	\$4,766	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Mississippi cotton farms								
Moderate-sized								
1990	Irr. cotton	630	693	0.125	0	0.068	\$25,977	
	Cotton	210	525	0.125	0	0.068	\$8,560	
	Soybeans	560	n/a	n/a	n/a	n/a	n/a	\$32,537
1993	Irr. cotton	630	693	0.075	0.15	0.188	\$82,934	
	Cotton	210	525	0.075	0.15	0.188	\$15,893	
	Soybeans	580	n/a	n/a	n/a	n/a	n/a	\$78,827
1994	Irr. cotton	630	693	0.11	0.15	0.129	\$41,877	
	Cotton	210	525	0.11	0.15	0.129	\$10,524	
	Soybeans	580	n/a	n/a	n/a	n/a	n/a	\$52,201
Large								
1990	Irr. cotton	1,937	693	0.125	0	0.068	\$79,869	
	Cotton	645	525	0.125	0	0.068	\$20,148	
	Soybeans	1,715	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Irr. cotton	1,937	693	0.075	0.15	0.188	\$193,498	
	Cotton	645	525	0.075	0.15	0.188	\$48,813	
	Soybeans	1,715	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Irr. cotton	1,937	693	0.11	0.15	0.129	\$128,140	
	Cotton	645	525	0.11	0.15	0.129	\$32,325	
	Soybeans	1,715	n/a	n/a	n/a	n/a	n/a	\$100,000
Missouri grain farms								
Moderate-sized								
1990	Wheat	200	43	0.05	0	1.28	\$10,294	
	Corn	300	99	0.1	0	0.51	\$13,832	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$23,928
1993	Wheat	200	43	0	0.15	1.03	\$7,529	
	Corn	300	99	0.1	0.15	0.28	\$8,237	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$13,766
1994	Wheat	200	43	0	0.15	0.85	\$8,214	
	Corn	300	99	0	0.15	0.4	\$10,098	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$18,312
Large								
1990	Wheat	1,453	43	0.05	0	1.28	\$74,787	
	Corn	2,200	99	0.1	0	0.51	\$99,970	
	Soybeans	3,630	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	1,453	43	0	0.15	1.03	\$54,700	
	Corn	2,200	99	0.1	0.15	0.28	\$45,738	
	Soybeans	3,630	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	1,453	43	0	0.15	0.85	\$45,141	
	Corn	2,200	99	0	0.15	0.4	\$74,052	
	Soybeans	3,630	n/a	n/a	n/a	n/a	n/a	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Missouri rice farms								
Moderate-sized 1990	Rice	800	48	0.2	0	4.18	\$95,848	
	Corn	200	98	0.1	0	0.51	\$8,998	
	Sorghum	200	68	0.1	0	0.58	\$8,854	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$100,000
	Rice	800	48	0.05	0.15	3.98	\$91,699	
1993	Corn	200	98	0.1	0.15	0.28	\$4,118	
	Sorghum	200	68	0.05	0.15	0.25	\$2,720	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$98,535
1994	Rice	800	48	0	0.15	0.94	\$23,011	
	Corn	200	98	0	0.15	0.4	\$6,084	
	Sorghum	200	68	0	0.15	0.48	\$5,318	
	Soybeans	500	n/a	n/a	n/a	n/a	n/a	\$34,993
Large								
1990	Rice	1,714	48	0.2	0	4.18	\$273,601	
	Corn	572	98	0.1	0	0.51	\$25,730	
	Sorghum	572	68	0.1	0	0.58	\$19,604	
	Soybeans	1,429	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Rice	1,714	48	0.05	0.15	3.98	\$281,954	
	Corn	572	98	0.1	0.15	0.28	\$11,772	
	Sorghum	572	68	0.05	0.15	0.25	\$7,779	
	Soybeans	1,429	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Rice	1,714	48	0	0.15	0.94	\$65,735	
	Corn	572	98	0	0.15	0.4	\$19,059	
	Sorghum	572	68	0	0.15	0.48	\$15,208	
	Soybeans	1,429	n/a	n/a	n/a	n/a	n/a	\$100,000
Nebraska grain farms								
Moderate-sized								
1990	Corn	540	132	0.1	0	0.51	\$32,718	
	Soybeans	80	n/a	n/a	n/a	n/a	n/a	\$32,718
	Corn	540	132	0.1	0.15	0.28	\$14,989	
1993	Soybeans	80	n/a	n/a	n/a	n/a	n/a	\$14,989
	Corn	540	132	0	0.15	0.4	\$24,235	
1994	Soybeans	80	n/a	n/a	n/a	n/a	n/a	\$24,235
Large								
1990	Corn	3,868	132	0.1	0	0.51	\$218,602	
	Soybeans	400	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Corn	3,868	132	0.1	0.15	0.28	\$100,014	
	Soybeans	400	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Corn	3,868	132	0	0.15	0.4	\$161,927	
	Soybeans	400	n/a	n/a	n/a	n/a	n/a	\$100,000
North Dakota grain farms								
Moderate-sized								
1990	Wheat	800	32	0.05	0	1.26	\$30,643	
	Barley	400	53	0.1	0	0.2	\$3,816	
	Sunflowers	400	n/a	n/a	n/a	n/a	n/a	\$34,459
1993	Wheat	800	32	0	0.15	1.03	\$22,413	
	Barley	400	53	0	0.15	0.67	\$12,073	
	Sunflowers	400	n/a	n/a	n/a	n/a	n/a	\$34,486
1994	Wheat	800	32	0	0.15	0.85	\$16,496	
	Barley	400	53	0	0.15	0.52	\$9,370	
	Sunflowers	400	n/a	n/a	n/a	n/a	n/a	\$27,866
Large								
1990	Wheat	2,872	32	0.05	0	1.26	\$110,009	
	Barley	1,435	53	0.1	0	0.2	\$13,890	
	Sunflowers	1,435	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	2,872	32	0	0.15	1.03	\$80,482	
	Barley	1,435	53	0	0.15	0.67	\$43,313	
	Sunflowers	1,435	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	2,872	32	0	0.15	0.85	\$66,401	
	Barley	1,435	53	0	0.15	0.52	\$33,816	
	Sunflowers	1,435	n/a	n/a	n/a	n/a	n/a	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
South Carolina grain farms								
Moderate-sized								
1990	Wheat	750	33	0.05	0	1.26	\$29,626	
	Corn	750	90	0.1	0	0.51	\$30,983	
1993	Soybeans	750	n/a	n/a	n/a	n/a	n/a	\$50,609
	Wheat	750	33	0	0.15	1.03	\$21,669	
1994	Corn	750	90	0.1	0.15	0.28	\$14,175	
	Soybeans	750	n/a	n/a	n/a	n/a	n/a	\$35,844
1994	Wheat	750	33	0	0.15	0.65	\$17,682	
	Corn	750	90	0	0.15	0.4	\$22,950	
	Soybeans	750	n/a	n/a	n/a	n/a	n/a	\$40,832
Large								
1990	Wheat	2,093	33	0.05	0	1.26	\$82,676	
	Corn	2,093	90	0.1	0	0.51	\$86,462	
1993	Soybeans	2,093	n/a	n/a	n/a	n/a	n/a	\$100,000
	Wheat	2,093	33	0	0.15	1.03	\$60,470	
1994	Corn	2,093	90	0.1	0.15	0.28	\$39,558	
	Soybeans	2,093	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	2,093	33	0	0.15	0.65	\$49,602	
	Corn	2,093	90	0	0.15	0.4	\$64,046	
	Soybeans	2,093	n/a	n/a	n/a	n/a	n/a	\$100,000
Texas Blacklands farms								
Moderate-sized								
1990	Cotton	460	467	0.125	0	0.068	\$12,782	
	Sorghum	720	71	0.1	0	0.58	\$25,764	
1993	Cotton	460	467	0.075	0.15	0.186	\$30,986	\$38,546
	Sorghum	720	71	0.05	0.15	0.25	\$10,224	\$41,190
1994	Cotton	460	467	0.11	0.15	0.129	\$20,507	
	Sorghum	720	71	0	0.15	0.46	\$19,988	\$40,465
Large								
1990	Cotton	1,194	467	0.125	0	0.068	\$33,177	
	Sorghum	1,868	71	0.1	0	0.58	\$66,845	\$100,000
1993	Cotton	1,194	467	0.075	0.15	0.186	\$80,378	
	Sorghum	1,868	71	0.05	0.15	0.25	\$26,528	\$100,000
1994	Cotton	1,194	467	0.11	0.15	0.129	\$53,226	
	Sorghum	1,868	71	0	0.15	0.46	\$51,855	\$100,000
Texas coastal bend farms								
Moderate-sized								
1990	Cotton	680	529	0.125	0	0.068	\$21,403	
	Sorghum	1,020	64	0.1	0	0.58	\$32,901	\$54,304
1993	Cotton	680	529	0.075	0.15	0.186	\$51,854	
	Sorghum	1,020	64	0.05	0.15	0.25	\$13,056	\$64,910
1994	Cotton	680	529	0.11	0.15	0.129	\$34,339	
	Sorghum	1,020	64	0	0.15	0.46	\$25,524	\$59,863
Large								
1990	Cotton	1,252	529	0.125	0	0.068	\$39,407	
	Sorghum	1,879	64	0.1	0	0.58	\$60,609	\$100,000
1993	Cotton	1,252	529	0.075	0.15	0.186	\$95,472	
	Sorghum	1,879	64	0.05	0.15	0.25	\$24,051	\$100,000
1994	Cotton	1,252	529	0.11	0.15	0.129	\$63,224	
	Sorghum	1,879	64	0	0.15	0.46	\$47,020	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Texas northern plains farms								
Moderate-sized								
1990	Wheat	642	50	0.05	0	1.26	\$36,424	
	Sorghum	280	104	0.1	0	0.58	\$14,676	
	Corn	470	125	0.1	0	0.51	\$26,966	\$80,066
1993	Wheat	642	50	0	0.15	1.03	\$26,104	
	Sorghum	280	104	0.05	0.15	0.25	\$5,824	
	Corn	470	125	0.1	0.15	0.26	\$12,336	\$46,265
1994	Wheat	642	50	0	0.15	0.85	\$23,192	
	Sorghum	280	104	0	0.15	0.46	\$11,366	
	Corn	470	125	0	0.15	0.4	\$19,975	\$54,553
Large								
1990	Wheat	1,388	50	0.05	0	1.26	\$63,072	
	Sorghum	605	104	0.1	0	0.58	\$31,712	
	Corn	1,016	125	0.1	0	0.51	\$56,293	\$100,000
1993	Wheat	1,388	50	0	0.15	1.03	\$60,780	
	Sorghum	605	104	0.05	0.15	0.25	\$12,564	
	Corn	1,016	125	0.1	0.15	0.26	\$26,670	\$100,000
1994	Wheat	1,388	50	0	0.15	0.85	\$50,142	
	Sorghum	605	104	0	0.15	0.46	\$24,602	
	Corn	1,016	125	0	0.15	0.4	\$43,180	\$100,000
Texas rolling plains farms								
Moderate-sized								
1990	Cotton	608	300	0.125	0	0.068	\$10,853	
	Wheat	390	20	0.05	0	1.26	\$9,337	\$20,189
	Cotton	608	300	0.075	0.15	0.166	\$26,293	
1993	Wheat	390	20	0	0.15	1.03	\$6,629	\$33,122
	Cotton	608	300	0.11	0.15	0.129	\$17,412	
	Wheat	390	20	0	0.15	0.85	\$5,636	\$23,047
Large								
1990	Cotton	3,012	300	0.125	0	0.068	\$53,764	
	Wheat	1,932	20	0.05	0	1.26	\$46,252	\$100,000
	Cotton	3,012	300	0.075	0.15	0.166	\$130,254	
1993	Wheat	1,932	20	0	0.15	1.03	\$33,629	\$100,000
	Cotton	3,012	300	0.11	0.15	0.129	\$86,258	
	Wheat	1,932	20	0	0.15	0.85	\$27,917	\$100,000
Texas southern plains farms								
Moderate-sized								
1990	Cotton	911	330	0.125	0	0.068	\$17,667	\$17,667
	Cotton	911	330	0.075	0.15	0.166	\$43,336	\$43,336
	Cotton	911	330	0.11	0.15	0.129	\$26,666	\$26,666
Large								
1990	Cotton	5,093	330	0.125	0	0.068	\$100,001	\$100,000
	Cotton	5,093	330	0.075	0.15	0.166	\$242,271	\$100,000
	Cotton	5,093	330	0.11	0.15	0.129	\$160,439	\$100,000

Appendix C. Comparison of actual deficiency payments in 1990 and 1993, and 1994 projected payments to farms of moderate sizes and those large enough to collect up to the \$100,000 limit.

	Commodity	Acres	Program Yield	ARP	Flex Acres	Payment Rate	Def. Payment for Crop	Total Def. Payment
Washington grain farms								
Moderate-sized								
1990	Wheat	585	65	0.05	0	1.28	\$43,980	
	Barley	167	51	0.1	0	0.2	\$1,717	
	Peas	498	n/a	n/a	n/a	n/a	n/a	\$45,677
1993	Wheat	585	65	0	0.15	1.03	\$32,153	
	Barley	167	51	0	0.15	0.67	\$5,431	
	Peas	498	n/a	n/a	n/a	n/a	n/a	\$37,584
1994	Wheat	585	65	0	0.15	0.65	\$26,534	
	Barley	167	51	0	0.15	0.52	\$4,215	
	Peas	498	n/a	n/a	n/a	n/a	n/a	\$30,740
Large								
1990	Wheat	1,840	65	0.05	0	1.28	\$143,191	
	Barley	608	51	0.1	0	0.2	\$5,581	
	Peas	1,620	n/a	n/a	n/a	n/a	n/a	\$100,000
1993	Wheat	1,840	65	0	0.15	1.03	\$104,710	
	Barley	608	51	0	0.15	0.67	\$17,659	
	Peas	1,620	n/a	n/a	n/a	n/a	n/a	\$100,000
1994	Wheat	1,840	65	0	0.15	0.85	\$86,411	
	Barley	608	51	0	0.15	0.52	\$13,706	
	Peas	1,620	n/a	n/a	n/a	n/a	n/a	\$100,000

Appendix D. Actual 1990 and 1993 Acreage Reduction Program (ARP or set-aside), flex acre, target price and deficiency payment levels, and 1994 projections.

Commodity	Year	ARP (%)	Flex Acres (%)	Def. payment	Target price
Wheat (bu)	1990	5	0	1.28	4.00
	1993	0	15	1.03	4.00
	1994	0	15	0.85	4.00
Corn (bu)	1990	10	0	0.51	2.75
	1993	10	15	0.28	2.75
	1994	0	15	0.40	2.75
Grain sorghum (bu)	1990	10	0	0.58	2.61
	1993	5	15	0.25	2.61
	1994	0	15	0.46	2.61
Barley (bu)	1990	10	0	0.20	2.36
	1993	0	15	0.67	2.36
	1994	0	15	0.52	2.36
Oats (bu)	1990	5	0	0.32	1.45
	1993	0	15	0.11	1.45
	1994	0	15	0.00	1.45
Rice (lb)	1990	20	0	0.0016	0.1071
	1993	5	15	0.0398	0.1071
	1994	0	15	0.0084	0.1071
Upland cotton (lb)	1990	12.5	0	0.0679	0.7290
	1993	7.5	15	0.1860	0.7290
	1994	11	15	0.1290	0.7290

STATEMENT BY WAYNE A. BOUTWELL
PRESIDENT
NATIONAL COUNCIL OF FARMER COOPERATIVES
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
WASHINGTON, D.C.
THURSDAY, JULY 14, 1994

INTRODUCTION

Thank you, Mr. Chairman. My name is Wayne Boutwell and I serve as President of the National Council of Farmer Cooperatives (NCFC) on whose behalf I appear today.

NCFC is a nationwide association representing over 4,000 local and regional farmer-owned marketing, supply and credit cooperatives with a combined membership of nearly 2 million individual farmers, as well as 31 separate state councils.

Mr. Chairman, we believe this hearing represents an important beginning in terms of trying to determine the future direction of our nation's food and agricultural policy as we look ahead to the 1995 Farm Bill. Accordingly, we appreciate very much this opportunity to share our views regarding:

- (1) The major factors which will likely influence debate on the 1995 Farm Bill;
- (2) The challenges facing U.S. agriculture and cooperatives; and
- (3) What should be the role of the U.S. government in terms of policies and programs necessary to meet such challenges.

FRAMEWORK FOR DEBATE ON THE 1995 FARM BILL

The framework for debate on the 1995 Farm Bill will, as usual, be influenced by a wide range of economic, social and political factors, including:

Economic Conditions:

The economic environment in 1995 is expected to be substantially better than in 1990 when the last Farm Bill was written. U.S. economic growth will be stronger. Interest rates, unemployment rates and the general level of inflation will be lower. For agriculture, economic conditions in terms of income, prices and debt/asset ratios will be significantly improved.

Current forecasts also point to excellent crop prospects for 1994/95. While this can be expected to benefit a broad spectrum of agriculture, it could also lead to some downward pressure on farm prices. In addition, some sectors and regions may continue to experience some stress as they seek to recover from adverse weather problems related to earlier and more recent floods, as well as drought.

Budgetary Constraints:

While efforts to reduce the federal budget deficit have been enhanced by the improved economic climate, in combination with past budget agreements, there is increasing pressure for further action. Although agriculture-related spending has already been reduced substantially in recent years, it remains a potential target for further cuts under various proposals now pending before Congress. Even beyond this, however, current budget rules relating to discretionary and mandatory spending will continue to have an effect on the availability of funding for existing agriculture-related programs as well as any new initiatives.

Global Developments:

Prospects for economic conditions outside the U.S. are improving steadily as economic recoveries seem to be taking hold in Europe and Japan. U.S. agriculture is increasingly a part of a global economy. Recent trade agreements, such as NAFTA, and now GATT, to the extent it is approved and implemented, will further influence the global marketplace. Clearly, U.S. agriculture will continue to be faced with increasing competition in both the domestic and international marketplace as other countries seek to maintain and expand their share of the world market.

Environmental, Conservation and Food Safety Objectives:

The scope of concerns in the area of environment, conservation and food safety have greatly expanded as our measurement technology has become increasingly sophisticated. Unfortunately, our ability to assess the alternative trade-offs in many of these areas lacks the same degree of sophistication. The result has been a continuing debate that will likely carry over into the 1995 Farm Bill. The challenge will be how to address such concerns, while maintaining the ability of U.S. agriculture to remain viable and competitive in an increasingly global economy.

Structural Changes in Rural America:

U.S. agriculture has undergone significant structural changes in recent years and the impact on rural America has been substantial. Changes continue to take place and this will likely also be reflected in the debate on the 1995 Farm Bill.

CHALLENGES FACING U.S. AGRICULTURE

Given this framework for debate on the 1995 Farm Bill, we see three major areas of concern or challenges which should be addressed if U.S. agriculture is to remain viable and competitive long term. These are:

Cost Efficiency: For an industry to be competitive it must be cost efficient. Current restructuring efforts will continue as farmers and related businesses seek new ways to retool or reengineer to reduce cost and achieve greater productivity. This will require additional capital which is often difficult to attract in rural America. How to attract and provide the necessary investment capital to facilitate such efforts will be a major challenge.

Another related challenge confronting U.S. agriculture in its efforts to become more cost effective is reflected in increasing regulations concerning soil and water conservation as well as food safety. Required changes in farming practices, as well as idling resources, all lead to higher costs in production. To the extent that other farmers around the world are not faced with similar requirements, U.S. agriculture is placed at a further competitive disadvantage.

This does not mean that we should not take such action as necessary to protect the environment and to ensure the safety of our food, but it does mean we need to look for ways to do so that minimize cost and allow U.S. agriculture to remain viable and competitive.

This leads to another challenge which needs to be recognized and addressed and that is the increasing opposition to the development and use of existing as well as new technologies, such as in plant and animal genetics. Developments in these areas offer promised benefits in terms of helping meet environmental and other related concerns and should be encouraged.

Market Expansion: If U.S. agriculture is going to continue to be a growth industry, it must not only be able to compete, it must have access to foreign markets. Given the realities of the global marketplace and nature of foreign competition, there remains an essential role for the U.S. government. The challenge will be to ensure that U.S. policies and programs are equally competitive with those of other countries in the face of continued pressure to reduce federal spending.

The need to help U.S. agriculture maintain and expand existing markets, as well as to develop new markets for both existing and new products, becomes even more important in the face of such budget pressures. Increasing demand for U.S. agriculture, for example, would help offset any reduction in tradition income and price-support programs, due to continued budget pressures.

Risk Management: Until agriculture can be brought into a greenhouse, farmers will face production uncertainty. For the industry, all the way from producers to consumers, this means instability. The basic objective of our farm programs has been to assure consumers a dependable supply of high quality, safe, food and fiber at reasonable prices. In doing so, the focus has been on trying to minimize the risks associated with production agriculture by protecting farmers against weather-related disasters, providing for orderly marketing, and ensuring some minimum level of price protection in order to help achieve a reasonable return on their productivity and investment. The challenge of course will be how to continue to do so in the face of continued budget pressures.

RECOMMENDATIONS

To meet these challenges, we believe the 1995 Farm Bill should focus on the following:

Cost Efficiency:

1. There should be renewed emphasis in terms of support for agriculture research. Attention needs to be given to research that is designed to meet the dual goals of maintaining growth in productivity and in meeting environmental (including soil and water quality) and food safety concerns.
2. There should be an expanded role for the Farm Credit System to ensure that the credit needs of farmers, cooperatives and other eligible borrowers continue to be met, and to provide the necessary capital to strengthen and improve rural infrastructure.
3. The Conservation Reserve Program (CRP) needs to be redesigned to not only assist in taking fragile land out of production, but in providing financial assistance to farmers in meeting soil and water regulations.

Market Expansion:

1. The full range of market development, promotion and other export-related programs and authorities should continue to be fully funded and aggressively utilized. This is even more critical to the extent that GATT is approved. History has shown, for example, that our foreign competitors can be expected to maintain every available weapon allowed to maintain and expand their share of the world market. Without a similar commitment on the part of the U.S. government, U.S. agriculture will be at a substantial disadvantage.

2. Both domestic and international food assistance programs, including such programs as TEFAP and P.L. 480, should continue to be adequately funded to help maintain and expand demand for U.S. agricultural commodities and related products, as well as to meet food and fiber needs of consumers at home and abroad.
3. Support should also be maintained and strengthened for research relating to the development of new and alternative products and uses from agricultural commodities as a means of further expanding demand.

Risk Management:

1. In addition to current efforts to revise and improve the existing Federal Crop Insurance and Disaster Assistance Programs, there should continue to be a focus on other options to minimize risks, provide greater flexibility, ensure orderly marketing, and meet foreign competition.
2. Such alternatives should include fully utilizing marketing loans, as well as the development of some form of revenue insurance to better provide income support for producers.

CONCLUSION

Mr. Chairman, we believe there continues to be a role for the federal government in terms of meeting our national food and agricultural policy objectives. With these recommendations, we believe these objective can continue to be met and that U.S. agriculture will remain a viable and competitive industry for the long term.



National
Council of
Farmer
Cooperatives

**TESTIMONY
OF
WAYNE A. BOUTWELL
PRESIDENT
NATIONAL COUNCIL OF FARMER COOPERATIVES**

**BEFORE THE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
HOUSE COMMITTEE ON AGRICULTURE**

JULY 14, 1994

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National Family Farm Coalition

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**TESTIMONY OF KATHERINE OZER, NATIONAL FAMILY FARM COALITION
BEFORE THE HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON COMMODITIES
THURSDAY JULY 14, 1994**

Mr. Chairman, I am pleased to testify before the House Agriculture Committee, Subcommittee on General Commodities. My name is Katherine Ozer and I am the Director of the National Family Farm Coalition (NFFFC), an organization comprised of 40 family farm and rural advocacy organizations in 30 states.

Farm policy promoted since the early 1980's by USDA and corporate agri-business has created record profits for the food processing and export industry while family farmers, consumers, the environment and taxpayers continue to lose both ground and money. While many claim that the "farm crisis" is over, the reality is far different. Farm auctions and sales are escalating, rural unemployment levels remain at record highs and lower farm income is the direct result of our export driven farm policy. On June 29th at the first hearing in this series on the Economic Outlook, Keith Collins, Acting Assistant Secretary for Economics at USDA presented testimony that there has been more than a 50% increase (3.9% to 6.3%) in the percentage of commercial farmers on the brink of bankruptcy or foreclosure in just one year - from January 1993 to January 1994. This translates into 40,000 farms suffering from a dramatic drop in farm income.

These statistics begin to reflect the hardship confronting family farmers and their rural communities. Despite last year's Midwestern floods and Southeastern drought which increased production costs and reduced yields, farmers still faced very low corn and wheat prices, dairy prices below the cost of production, and increasing bankruptcies and farm foreclosures. This year's floods in the Southeast may now put many family farmers and their communities in further jeopardy.

The 1995 Farm Bill must reflect a significant change in current policy to stem the continual loss of family farmers in our rural communities. We need farm programs that make sense to farmers, taxpayers, the environment and consumers. In preparation for the 1990 Farm Bill debate, NFFFC developed the following broad definition of sustainable agriculture. It is "a system of agriculture based on the widespread ownership of family farms and livestock production facilities, which produce a stable and dependable supply of high quality food, feed, fiber and industrial feedstocks. The primary criteria of sustainability are: 1) ecological soundness of farming practices and technologies, and 2) the economic viability of the system in terms of production level income and government costs." This

definition continues to be the basis of our efforts for the 1995 Farm Bill.

NFFC is committed to working to change current farm and food policy. We have joined with hundreds of other grassroots organizations representing family farmers, consumers, environmental groups, religious institutions, animal protection, and labor organizations who recognize the importance of working together to forge new policies. We are working to develop policy options that are the basis of the Campaign for Sustainable Agriculture. I have enclosed a copy of the issues that are being addressed by the Campaign for inclusion in the hearing record.

Funding and proper implementation of 1990 Farm Bill demonstration programs such as the bushel based program as well as sustainable agriculture provisions would help shift the direction of existing programs. So far the budget cuts and farm bill reductions have disproportionately hit small to medium sized family farmers with little or no economic benefit from other programs. Farmers must earn at least their cost of production plus a reasonable return on their investment and labor for a longterm sustainable program. This enables a family to work on their farm and utilize new farming practices that make sense environmentally and economically.

Negative economic effects on family farmers are being felt in every region of the country. I attended a Dairy Strategy meeting in Wisconsin this past weekend. An article in Monday's Milwaukee Journal noted that Wisconsin has the lowest rate of entry into farming of any state in the continental U.S. In fact for every two dairy farmers leaving the business; only one will come in to take their place. This rapid loss is replicated in many states and regions across the country. In order to reverse this trend, farmers need access to affordable credit and the hope that farming can again be profitable.

One of our biggest concerns is how the NAFTA agreement and the possible passage of the General Agreement on Tariffs and Trade (GATT) will affect farm income in the future. USDA analysis presented at the June hearing project that, by the year 2,000, there will be increased exports with net farm income expected to drop in real terms. Despite the much touted benefits professed by the supporters of the trade agreement, it is evident that the NAFTA agreement puts a cap on farm prices instead of raising farm income. The U.S. will no longer be able to impose import quotas with the loss of Section 22 and the Meat Import Act. In fact GATT mandates an increase in imports up to the 5% of domestic use level even if there is currently a surplus in that commodity. The best case scenario in the recent analysis by the Food and Agricultural Policy Institute (FAPRI) is a 3.4% increase in wheat prices by 2001 and a 2.9% increase in corn prices by 2002. For dairy farmers, 20 of the 22 farms would incur major losses in farm income. All ignore increases in production costs.

USDA's testimony by Mr. Collins states that there has been a 15% increase in exports to Mexico since the January 1, 1994 effective date of NAFTA. Let's take a look at what has happened since that time in farm prices. Cattle prices have dropped from \$10-\$15/cwt. Wheat prices have dropped \$1.00 a bushel, corn and

feed prices have dropped along with a recent dramatic drop in dairy farm-gate prices. All of these levels push the prices received by farmers even further below the cost of production price. While we recognize that many factors affect farm prices, a precipitous drop in farm commodity prices should not occur if the trade agreements met even a percentage of the goals that their supporters claim.

The bottom line is that NAFTA and GATT will not raise net farm income. What they will do is create new barriers to the passage of sensible farm policy. They open the gates to a flood of imports into the U.S. Furthermore, the production practices, food quality, or conditions of farm production and labor will be hidden from public scrutiny or oversight. The underlying idea that U.S. farmers are expected to compete with every farmer in the world is as ludicrous as the argument that labor productivity or other standards should fall to the lowest level. Family farmers are pitted against farmers in other countries while record profits are made by the very multi-national companies who are attempting to force our failed U.S. farm policy onto the rest of the world.

In a recent Scientific American article entitled "Agriculture for Developing Nations" author Cynthia Bray clearly outlines why the modern Western model of agriculture is not the best model for the poor countries of Africa, Asia, and Latin America. In the process, she reveals the very factors which are causing the erosion of rural communities and environmental degradation in America.

In February 1993, NFFC presented testimony before the House Agriculture Committee at a February hearing on the state of the rural economy. Curt Rohland, who was then the NFFC President and a Wisconsin dairy farmer stated, "We are in a vicious cycle and one that must be broken to achieve real economic revitalization in this country. That revitalization can only occur on the basis of a vital rural economy - one in which farmers begin to receive a fairer share of the value of what we produce. While the farm-gate price for all commodities has been frozen or declined for most of the past decade, input costs and family living expenses continue to rise. Our nation's "cheap" food policy supply is not cheap for consumers who can't afford food at the grocery store nor is it cheap for the farmer."

Denise O'Brien, President of the NFFC and an organic dairy farmer, orchard and fruit grower testified before the House Appropriations Subcommittee on Rural Development, Agriculture, and Related Agencies, "The rural economy needs to be revitalized from the farm up. Federal farm policy plays a critical role in helping to make this happen. Farmers would gladly purchase supplies, paint, and machinery in our local communities, but we need a decent income and cashflow to participate in that economy. The only businesses getting support from my farm today are the vet due to weather induced illnesses of our cows and the implement and seed dealers who charge 18% interest on our accounts that are due. We continually need to repair with welding rod and drive a tractor that pops out of gear because we can barely make ends meet. For many farm families and others across the country, health insurance and medical care costs are exorbitant. Unfortunately it took a near fatal car crash last

year without health insurance to put the need for catastrophic though still inadequate health insurance as our family's highest priority. The situation during the past 18 months has only become worse.

Contract Operations:

There needs to be a clearer understanding of the negative impacts on the rural economy of farming operations that are operating under contract. The vision of Cargill, ConAgra, IBP and Excel and others is to maximize production without regard to the methods of sustainability - whether in the Southeast for poultry; Midwest for hogs or Mexico for other production.

Unparalleled expansion is going on in the poultry and hog industries in the traditional states and in states where the vertically integrated processors have not had large divisions before. Farmers new to contract farming are being lured into the business with false information about the prospects of attractive incomes which could replace tobacco income in the Carolinas and Kentucky and other low income row crops in the Mid-west. Farms that have survived the recession of the '80s and the floods and droughts of the '90's could be mortgaged in order to build huge confinement facilities with the latest automated equipment only to find that the income from these facilities is far less than promised and the farmer has lost all control of the land.

States such as Kentucky, eager to find rural development projects that will keep the rural population working and the land productive, are rolling out the red carpet for the processing companies as they vie for the best deal, the least capital outlay on their part, fresh capital from farmers and a willing work-force for the processing plants. Three large poultry integrators, Hudson Foods, Cagles, and Perdue Farms, are planning to build and operate totally new complexes in Kentucky that will include hatcheries, feed mills and processing plants. Kentucky beat out Indiana for Hudson Foods with their offer. We hear that Kentucky has promised over \$150 million in incentives such as tax abatements and other goodies to get the companies in. For the Perdue complex, Kentucky is considering a 1% income tax that will go to train workers for the plant! As if Perdue Farms couldn't afford to train their own workers.

This may sound fine but does not reflect the poor track records of these companies over the past 20 years in the poultry business. They have not taken enough responsibility for the environmental consequences of processing millions of pounds of chicken; they have shoved the responsibility for the litter (manure) and carcass disposal of their birds onto the farmers; they have provided one-sided, easily manipulated, harsh contracts to the farmers; and paid low wages to the plant workers, catchers, and feed truck drivers with seemingly little concern for these workers' overall health and workmen's compensation for injuries.

If industrialized agriculture using the contract and vertically integrated system is the only way a state can keep its rural people in agriculture and working, then there are some organizations that can give good advice on what the state might do to make the business a real boon to its people and not just to the pockets of the companies.

Of course, there is lots of room for the companies to shop around for the most lax state regulations and laws along with the sweetest deal. This is not the kind of rural economic development farm communities need.

Recent Research:

A USDA publication released in February 1993 based on 1987 Census Data and more recent Farm Costs and Returns Surveys further documents the statistical reality of our failed farm and rural policy. The USDA Economic Research Service (ERS) issued their analysis entitled The Economic Well-Being of Farm Operator Households 1988-1990. This report states, "only \$5,742 of the total income for farm operator households in 1990 was income from their farms." There are 1,738,019 farm operator households in the country according to ERS data. Particularly striking is that 21.9% of those households are below the poverty threshold while the national poverty rate for all U.S. households was 10.7% in 1990. These levels are clearly not economically sustainable.

Inadequate income puts increasing pressure on the need to increase production, while working off the farm imposes additional time and energy constraints on the farm family. Time now spent commuting to low-wage jobs and other family costs such as child-care, take time away from labor intensive farm practices. It is also clear that, as with the non-agricultural economy, smaller operations are a greater source of employment. As Linda Lobao points out in her 1991 book Farm and Industry Structure and Socioeconomic Conditions, "counties with many corporate farms tend to have slightly higher levels of unemployment and lower levels of income. Counties with a lot of corporate farming don't have much opportunity for growth."

Conclusion

We look forward to working with this Subcommittee on the development of the 1995 Farm Bill. Family farmers view this as an opportunity and a challenge that must be met. The window for family farmer survival is closing. We must work together to forge creative approaches to create new domestic markets and revitalize our rural communities. Thanks again for the opportunity to testify today.



American Agri-Women

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WITNESSING ON GENERAL FARM COMMODITIES

Written testimony from American Agri-Women
Ardath DeWall, President

American Agri-Women is a national coalition of farm and ranch women along with various individuals who have united together to communicate with one another and consumers to promote agriculture for the benefit of the American people and the world.

As we look ahead to development of the 1995 farm bill, it would be well to consider once again what national agriculture policy is intended to accomplish and to take a look at how past policies have performed.

Assurance of an abundant supply of quality food is basic to any policy. American agriculture has an unsurpassed record in this regard. The American consumer has a lower cost, higher quality food supply than can be found at any other place in the world at any other time. At the same time, American agriculture has produced food and fiber to meet substantial market demand from abroad. The combination of policies that have fostered price stability, reduced production risk and encouraged adoption of new technology has been largely responsible for this record.

The cost of farm programs has been of increasing concern to Congress and the various administrations in recent years. A variety of mechanisms have been used to curtail program costs with varying degrees of success. According to USDA's latest estimates, farm program costs in Fiscal Year 1995, including commodity programs, interest expense, administrative cost and export programs will total \$9.0 billion, little more than one-third the \$25.8 billion devoted to these functions in Fiscal Year 1986. Program costs certainly are a factor to be considered when developing new legislation. They should not, however, become the only consideration as they have too often been in the past.

A growing consideration in farm policy development is the impact agriculture has on the environment. As farm women, we know the importance of sound conservation programs and environmental safeguards at first hand. This is not an abstract concept to us. Sound conservation means the nurturing of productive resources so they will continue to contribute to our livelihood next year, in the next decade and for succeeding generations. At the same time care must be taken to assure that requirements imposed in the name of environmental enhancement and conservation are realistic, are consistent and achievable in light of local conditions and do not impose unreasonable costs.

Finally, agricultural policy is intended to stabilize and improve farm income. This has been an ignored aspect of policy for too long. According to the July 1994 issue of USDA's Agricultural Outlook, net farm income in 1994, 1987 dollars is expected to be essentially unchanged from 1987 levels. This stagnation of farm income levels in the face of rising living costs places increasing strains on the family farm structure that has been the foundation of American agriculture.

As you move through much of rural America today, we see small towns where main street business is dwindling. The continued erosion of the family farm, the pressure on agriculture to improve efficiency, to get big or get out, is reducing economic activity throughout rural areas. At the same time our federal commodity programs must be size neutral, location weather and consumer preferences all determine what kinds of farms are needed and will be profitable in a given area. A major initiative in the Clinton administration has been development of new rural development programs. The soundest, fastest acting and the most direct rural development program is one that seeks to assure a reasonable level of farm income.

As work begins with respect to the 1995 farm bill, a new term has been added to our vocabulary, "GATT legal" is the measure against which any policy proposals must stand. If a concept is not "GATT legal" it appears it will be rejected out of hand as violating the agreements our government has entered into as a result of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade. A couple of observations must be made in this regard.

First, what is GATT legality? What are the conditions that must be met? Who will render a final judgement as to what constitutes GATT legality? Unfortunately, most of this is speculation at this point as the World Trade Organization created by GATT agreement is not operational, its rules and procedures have not been developed. We are in essence, playing the game before the rules are written.

Second, is the question of GATT legality consistent with assurances given by Congressional leaders and others throughout the trade negotiations? Before and during the trade talks, concerns were expressed over the potential of an agreement which limited the ability of the U.S. to determine its own food and fiber policy. In a variety of forums, assurances were given that no agreement would be entered into or approved which limited the ability of the United States in this regard. Yet, even before the legislative package implementing the agreement is submitted to Congress, the new agreement is being used as the basis for rejecting policy proposals, limiting their applications or otherwise narrowing the scope of farm policy options.

We commend the House Agriculture Committee for their support and efforts in legislation promoting ethanol and we urge you to remain vigilant with that decision despite further opposition.

As you know, the current price stabilization program for sheep, the National Wool Act, is set for elimination at the end of 1995; therefore inclusion of a new sheep program in the Farm Bill is critical to the economic viability of our sheep industry and many rural communities across the U.S. We strongly urge the inclusion of a new sheep program in the 1995 farm bill.

The question of budget limitations or restraints was mentioned earlier. We are aware of the need to maintain spending of these programs within tight limits. We encourage the Congress and the administration to seriously work with agricultural interest to develop programs and policies as part of legislation that address both the farm income stabilization need and the requirement to control program costs.

In this regard we call your specific attention to the dairy self-help legislation now pending before the House Committee on Agriculture. This legislation provides the basis for the dairy industry to take responsibility for management of a portions of surplus dairy products. It places clear and absolute limits on government costs while providing a means for improving farm income. The combination of expanded export markets, and if needed, production restraints provide a workable policy framework for the control of government costs and improvement of farm income.

For too long, dairy farmers have seen sterile assessments levied on milk marketings simply for the purpose of reducing the budget deficit. These assessments have not helped reduce surpluses. They have been detrimental to farm income. They have done nothing to develop markets for milk and dairy products. The producer cost of the self-help program would be met through a pooling arrangement whereby all producers would share the burden. It relies on seeking market outlets for the relatively small portion of total production that consistently depresses farm prices.

While not a legislative issue, we must express concern regarding the recently proposed policy changes with respect to the National School Lunch Program and the School Breakfast Program. We have strongly supported the improvement and expansion of these programs as a means of improving the overall nutrition of our nation's young people. We are greatly concerned that this new policy moves in a direction that could actually result in lower nutrition standards.

Changes in the "offer vs serve" requirements make it questionable that students will actually receive one-third of their basic daily requirements through a school lunch. If this happens, the nutritional integrity of the program has been undermined. The focusing on nutrients rather than foods or food groups presents a difficulty. If not impossible, task with respect to nutrition education. Only recently, the Department of Agriculture spent a great deal of time and money to develop the Food Guide Pyramid. We are concerned that this guide be used in developing these program guidelines.

On behalf of the 50,000 members of American Farm-Women we request that you take into consideration our input for the 1995 Farm Bill.

TESTIMONY OF PEGGY MALONE

JULY 14, 1994

Chairman Sarpalius, Committee Members, Ladies and Gentlemen,
My name is Peggy Malone and my husband and I farm in the Saginaw Valley of Michigan. I am submitting written testimony as neither myself nor my husband could attend these hearings in person. It is my utmost hope this testimony can be read before your Committee.

I wish to offer the following suggestions for your committee to review as you hold hearings on the 1995 Farm Bill with suggestions and concerns from the people who are directly affected by this legislation.

I have had the honor to address my concerns at the Greensboro, N.C. farm forum our Secretary of Agriculture, Mike Espy, held in 1993. My main concern then was farm income and today it is still farm income. To assist rural America the U.S. farmer the following suggestions are offered.

1. Presently there is a freeze on corn and wheat established yields at the A.S.C.S. office. I would request these yields be replaced with the farm producers' proven yields. This could be calculated on a proven 4 year average and would run parallel to the Federal Crop Insurance requirements.
2. Increase the loan rates for corn, wheat and soybeans and then adjust annually for inflation.

CORN	from \$1.99	to	\$2.40
WHEAT	from \$2.27	to	\$3.50
SOYBEANS	from \$5.02	to	\$5.98

3. Increase the target prices for corn and wheat and adjust annually for inflation.

CORN	from	\$2.75	to	\$3.00
WHEAT	from	\$4.00	to	\$4.50

As income increases for the U.S. farmer and they again begin to have purchasing power, thousands of jobs will be created to produce and manufacture the equipment and implements that the U.S. farmer has not been able to afford.

If costs are incurred in implementing these suggestions and changes I would encourage U.S.D.A. to seek a percentile reimbursement from the TITLE IV-D collections of child support. As States increase their enforcement and collection procedures and U.S.D.A continues with its huge outlays in the food stamp program, nutritional programs and WIC programs a percentage of these collections should go back into the U.S.D.A. budget if not already implemented.

I regret that I am unable to answer any questions you may have on my suggestions for the 1995 Farm Bill. I am available at (517) 770-4035 if you need to contact me on my calculations and program suggestions.

As stated earlier, it is my hope this testimony can be read before your hearing. It is also my hope that these program changes can be implemented either immediately or in the 1995 Farm Bill. It has again been an honor to offer my suggestions and concerns on programs that directly affect us. Thank you.

Peggy Malone
(517) 770-4035

TESTIMONY OF
WOMEN INVOLVED IN FARM ECONOMICS
by Mary Schuler, Legislative Chairman

Subcommittee Chairman Sarpalius, Members of the House Agriculture Subcommittee on General Farm Commodities, WIFE thanks you for the opportunity to present written testimony on the effects of Congressional budget constraints on agriculture, and how the 1995 Farm Bill will impact the U.S. agricultural sector in general and commodity support programs in particular.

For the Record, my name is Mary Schuler, I serve as WIFE's National Recording Secretary and its Legislative Chairman. More importantly, I am a farmer. My husband Dick and I grow wheat and barley on a dryland farm in Northcentral Montana and also have a cow-calf operation. Our three sons, in partnership, are also engaged in farming.

According to the mid-February Farm Journal "Opinion" page, *I am a very important person*, along with the other 2% of the U.S. population that are agriculture producers.

* The food and fiber we produce represents 16% of the U. S. gross national product. We generate 21 million jobs--about one job in six or 17% of the U.S. work force. About 90% of these jobs are off the farm.

* While agricultural labor represents only .3% of the world's labor force, it produces 40% of the world's corn, 50% of the world's soybeans, 15% of the world's cotton, 10% of the world's wheat 25% of the world's beef and 11% of the world's pork. All in better working conditions, with better wages and benefits.

* One American Farmer or rancher provides food and fiber for 128 people--94 in the U.S. and 34 in other countries. U.S. consumers spend 10% of their income on food. In comparison, consumers in France spend 16 %, Japan 18%, China, 48% and India, 53%.

* In 1991, farm exports totaled \$37.6 billion and cut the nation's nonfarm trade deficit by 14%. Every dollar in agricultural exports generates another \$1.59 in economic activities like transportation, warehousing and production (These facts were compiled by the Agriculture Council of America)

WIFE is an independent farm organization of women dedicated to the purpose of promoting economic prosperity for family agriculture producers. We define a family farm as a form of commercial enterprise in which the management decisions are made by a family engaged in the production of food or fiber for profit, which is intended to provide the major source of income and capital for investment. A profit which provides security, income stability, and an acceptable standard of living, commensurate with other segments of the economy must be a realistic goal for the nation's agriculture producers.

We support the right of every farm family to improve their financial situation, standard of living or status in life through their own investments, management decisions, determination and dedication. WIFE believes that it should be the role of government to protect that inherent right.

William Jennings Bryan once said, " Burn down your cities and leave our farms, and your cities will spring up again as if by magic...but destroy our farms, and grass will grow in the streets of every city in the country." Many of the Legislators who will decide the fate of the '95 Farm Bill come from cities which are deteriorating because of the loss of jobs. These Legislators need to be made aware that supporting the Agriculture sector of this country is in the best interest of this country.

When Dick and I married and I moved to the small community of Dutton, Montana there were five farm machinery dealerships. Now there is one, and they are struggling to keep their doors open. In the neighboring city of Great Falls, Montana a similar situation occurs. While they still have all major implement manufacturers represented, many of these dealers operate in more than one city and are often backed financially by the manufacturer. Parts are very difficult to obtain as finances prohibit dealers from stocking inventory. Parts are most often ordered to be delivered by 2nd day air. Two days of down time during the critical planting and harvesting periods can cause tens of thousands of dollars in income losses. Dutton also had 4 grain elevators, now there are 2 handling more grain. There were many other main street businesses now there is only one, a grocery store. We have to drive 40 miles for a nail, a prescription or clothing. Multiply this by all the rural towns in the U.S. and on into the industrial areas where manufacturing jobs have been lost.

There are nearly as many acres farmed now as then, (there is some land in the Conservation Reserve Program) but there are fewer farmers. And, these farmers are getting older. Our young people look around and see what their friends are making in jobs off the farm, and they see them working 8 hours a day instead of 12, they see them getting vacations, health insurance and other benefits and they leave because they want these things for themselves and their families.

In 1971 we purchased a NEW tractor, we are still using that tractor. (We have since purchased other tractors but they were not new and were purchased at auction sales of farmers who were forced because of finances to leave farming. This goes for other equipment too.) In 1971 when we bought that tractor we paid \$20,000 for it, today the dealer quoted me a price for a tractor of the same horsepower at \$100,000. Comparing that to the price of grain in 1971 we received \$1.76, today we could get \$2.66. If wheat prices had gone up at the same rate as the tractor, we would be getting \$8.80. And, if, we were getting that \$8.80 a bushel we would have bought that new tractor, the equipment for it to pull and probably a grain cart and trucks. Think of all the jobs that would have created and the taxes those people who got the jobs would be paying, as well as all the welfare and other government assistance this would have saved. Those people would most likely also be getting health insurance or have enough money to buy their own.

You, the members of the House Agriculture Committee, are well aware of these facts and figures but your colleagues and the rest of the 98% of the U. S. population who are not involved in production agriculture often misunderstand the business and it's relationship to prosperity in our great country. We feel that until one works the land a crop season to produce food for others and make a living, they cannot possibly be knowledgeable enough to make decisions to control that industry's destination.

Therefore, basing the 1995 Farm Bill on a budget-cut mind set is totally unrealistic. Agriculture safely feeds the people of the U.S. and other countries very cheaply. We feel that we have fulfilled our side of the original purpose of the farm program by controlling supply and putting into place appropriate environmental practices while our income has not been enhanced. A fair market price to cover the cost of production and give a reasonable profit could eliminate subsidy payments.

Let's focus on what is good for the U.S. **a safe, affordable food and fiber supply, with a price to the producers which provides security, income stability and an acceptable standard of living.** When this is achieved, as William Jennings Bryan pointed out so many years ago the nation as a whole will prosper.

Testimony of Kay Zeosky
 Women Involved in Farm Economics
 Turin, New York
 July 8, 1994

for the

HEARING ON '95 FARM BILL ISSUES
 AND OUTLOOK FOR COMMODITY PROGRAMS

I am Kay Zeosky and I serve as National Trade Chairman for Women Involved in Farm Economics (WIFE). WIFE, a grass-roots organization with members in over 24 states, is committed to improving profitability in production agriculture through education, legislation, communication and cooperation.

America, along with a lot of the rest of the world, is about to take part in a gigantic Monopoly game. The General Agreement on Tariffs and Trade (GATT) is the game and there are 117 players. Park Place can be wheat, Boardwalk will be the computer industry, Baltic Avenue might be dairy, Marvin Gardens can be U.S. Steel and so forth around the board. We have all played monopoly with three players, as is the case with NAFTA, but this game will be a LOT more complicated.

Even though many years have gone into setting the rules of the game, and everyone has his own interpretation of how the game will be played, **NO ONE** knows what numbers they will roll on the dice or what cards they will draw from Chance or Community Chest and that will make **ALL** the difference! We may plot our strategy and play our best, but ultimately the results will depend on circumstances and unforeseen events.

What if we draw a card that says we will have a drought this year? Perhaps our next draw could be a dramatic, unexpected change in political events. Some players will gain property and some will lose. Some players will begin the game with very little to risk and some will risk everything they have spent generations to build.

We will hope for fair play, that there will be no cards or money passed "under the table", and that no one will actually come out with less than they had when the game began. Hopefully, if the game is played well, we may all be winners.

The GATT has such tremendous ramifications that it must be front and foremost in every discussion of our national economy. Never before has a step of this magnitude been attempted.

- If we discuss any aspect of our domestic food policy, it will be completely dependent on where we stand regarding the GATT.
- If we discuss the cost of a piece of machinery, it will depend on what has been negotiated through the GATT.
- When we discuss the 1995 Farm Bill, the whole negotiation will depend on where we stand concerning the GATT.

Since the GATT is 22,000 pages long, it has been difficult to get information about specific commodities. A publication entitled Effects of the Uruguay Round Agreement on U.S. Agricultural Commodities put out by the Economic Research Service explains their opinion of the economic impact. Most of the quotations that follow are theirs:

The main theme throughout that publication is that our government will save tremendous amounts of money by doing away with price support programs.

It continues to amaze me that a graph of the national budget shows the agriculture portion (including feeding programs) to be so tiny that it is invisible, yet anyone holding that very same budget and looking for places to cut costs cannot seem to see any other portion of it.

At this very time, the value of our dollar is in free-fall due to our imbalance of trade. It is the second largest trade deficit in our nation's history. Can you imagine what a huge influx of imports will do to us on January 2, 1995?

Many countries look upon the United States as being affluent. You can be sure that their permits and licenses are already in order to share a portion of our markets. I'm sure, also, that many of our non-farm businesses are already lining up their resources to break into those overseas markets.

Our agriculture related businesses are totally unprepared to enter the export business. At a meeting held in Albany, New York, last month by our Council of Northeast Farmer Cooperatives, speakers from the USDA Office of Economics, the Food and Drug Administration, the Foreign Agriculture Service and the Eastern U.S. Agriculture Food Export Council, Inc., urged processors to study their roles in exporting farm products. Of the sixty representatives in attendance, only one had a license and that license had never been used.

We believe in trade between countries. No one is more frustrated than farmers at being unable to put our surplus food into the hands of the people who truly need it. We want to bring the economy of other countries up to, and even beyond our own level. We cannot do it alone. It is infinitely more complicated than it appears to be. It is NOT a matter of just opening our borders. We DO have problems.

Although more markets will be available, we have a lot to learn before we can take advantage of them. Marketing in other countries is not as simple as it might seem. The California Raisin Advisory Board learned of the complexities when they launched a \$3 million Market Promotion Program in Japan to position raisins as a snack food. The General Accounting Office report on International Trade states that, "The commercial's 'dancing' raisin figures (misshapen and shriveled) frightened the children in the target audience." A lot of hard earned dollars will be wasted unless proper market research is done. We need your help!

WHEAT

At this point, the grain problem in Montana and North Dakota is still an extremely difficult issue that has not been resolved. Secretary Espy said he had tried to work out the problem in Morocco, but they (U.S. and Canada) had agreed to disagree. That isn't good enough for our wheat growers. Canadian growers got their last payments for 1992 feed wheat several weeks ago and received 30 cents more per bushel than the best price U.S. farmers received.

The tension was not eased at all by a statement from Alberta's agriculture minister, Walter Paszkowski. He said they, in Canada, expected the farmer action against their wheat because, "Once GATT was signed, it is more difficult to negotiate on other issues. The Americans are posturing while the negotiations are taking place. It is the last kick at the cat for them to get the most they can."

Even more unjustly, Canadian trucks have an exemption to allow extra weight and are longer trucks than U.S. regulations permit. We need your help!

BEEF

"Initially higher grain costs will slow livestock production. U.S. cattle slaughter will initially rise during 1995 to 1997, boosting beef production, and more imports combine to lower all livestock meat prices. U.S. beef production will continue at marginally lower levels through 2000 but rebound above base levels by 2005." How many businesses do you know that can survive for eleven years without a profit margin? To maintain a beef supply in our own country, we will need your help through those eleven years!

DAIRY

The National Dairy Board has struggled for many years trying to open foreign markets for our products. It is **NOT** an easy task. When we finally opened a market for ice cream in Japan, New Zealand stepped in with a lower bid and we were out of business. If imports do end up in our harbors, we have to find equal amounts of export markets or our milk prices will take a tremendous drop. Secretary Espy says that the effects of those imports will be small since they are only two percent of the domestic supply. We all know that a two percent surplus has kept the price of dairy products at rock bottom for the past ten years. We will receive 32,000 metric tons of dairy products the first year. How would our legislators feel if we imported 32,000 Congressmen in direct competition with them?

In spite of our NAFTA agreement, milk is being taken off the shelves in Mexico, while sales to Algeria were discontinued because of that country's inability to pay. Foreign dairy markets appear to be an illusion—"now you see it, now you don't."

"The prime beneficiary in world dairy markets will be New Zealand and Australia ... These higher international milk prices are expected to lead to increases in milk production in Australia and New Zealand."

When we asked the Foreign Agriculture Service what New Zealand gave us in return for their huge allotments of cheddar, the reply was, "Nothing." To allow us to compete fairly, imports need to pay the assessments required of our own farmers. We need help to change the cheddar allocations to something less damaging. Cheddar, sold on the Green Bay Cheese Exchange, sets the price for our entire domestic milk supply.

SOYBEANS

"The U.S. will reduce subsidized oil exports, temporarily reducing U.S. soybean oil prices and crushing margins. Increased world demand for vegetable oils and higher world prices will more than offset export subsidy reductions toward 2005..." Soybeans growers need your help for eleven years or the industry will die in this country.

Agriculture today is extremely complex. The expertise required to grow commodities at a reasonable cost has been accumulated through years and years of experience. If we put our farmers out of business, it will take generations to develop the knowledge these people already possess.

Agriculture should not be asked to pay the \$14 billion loss in tariffs since they are already being hurt. The tariff losses must be made up by someone who stands to gain in this agreement. One Congressman told me that the reason agriculture has to pay the bill is because they are already angry. If they irritate another faction of the business community, they may not be able to pass the GATT.

Don't worry about the \$14 billion. If this agreement does indeed create such huge increases in our agriculture incomes as we are being led to believe, the enormous income taxes farmers will be required to pay next year will more than offset any meager losses in tariffs.

This is not the time to abandon our nation's farmers. The people who feed you three times a day cannot wait eleven years for the world economy to reach a level that will enable other countries to purchase our products. Our farmers are tired of working so very hard for a meager existence. Unless you can see your way clear to help agriculture through these difficult years, we will find ourselves in the midst of the deepest depression this country has ever known. Agriculture, with its huge investments, still leads the way to prosperity.

When I fly into Washington, D.C., I am appalled by the rows upon rows of expensive yachts tied to the docks for miles, while the farmers back home can barely pay their bills. If our government wants a cheap food policy, that's fine, but don't make farmers bear the brunt of it alone. Don't sacrifice agriculture for big business! If trade legislation is passed, it shouldn't be a bonanza for ConAgra, the computer industry, or General Motors at the expense of our farmers. Those who stand to make a profit should share the effects those imports have on the rest of the country.

Our entire lives depend on the way our Farm Bill is written. I hope and pray that they get some clear information before they make their decisions and that their *cheap food* policy doesn't turn into a *no food* policy. A friend at USDA said that we have the greatest food supply in the entire world. He also said:

"If its working so well, don't tamper with it!"



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